04

STRENGTHENING U.S. EXPORT COMPETITIVENESS: INDUSTRY VIEWS

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

NOVEMBER 8, 1995

Printed for the use of the Committee on International Relations

U.S. GOVERNMENT PRINTING OFFICE

44–249 CC WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055742-9

STRENGTHENING U.S. EXPORT COMPETITIVENESS: INDUSTRY VIEWS

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

NOVEMBER 8, 1995

Printed for the use of the Committee on International Relations

U.S. GOVERNMENT PRINTING OFFICE
44–249 CC WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055742-9

COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM F. GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
TOBY ROTH, Wisconsin
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
JAN MEYERS, Kansas
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRABACHER, California
DONALD A. MANZULLO, Illinois
EDWARD R. ROYCE, California
PETER T. KING, New York
JAY KIM, California
SAM BROWNBACK, Kansas
DAVID FUNDERBURK, North Carolina
STEVEN J. CHABOT, Ohio
MARSHALL "MARK" SANFORD, South Carolina
MATT SALMON, Arizona
AMO HOUGHTON, New York
TOM CAMPBELL, California

LEE H. HAMILTON, Indiana
SAM GEJDENSON, Connecticut
TOM LANTOS, California
ROBERT G. TORRICELLI, New Jersey
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
HARRY JOHNSTON, Florida
ENI F.H. FALEOMAVAEGA, American Samoa
MATTHEW G. MARTINEZ, California
DONALD M. PAYNE, New Jersey
ROBERT E. ANDREWS, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. MCKINNEY, Georgia
ALCEE L. HASTINGS, Florida
ALBERT RUSSELL WYNN, Maryland
JAMES P. MORAN, Virginia
VICTOR O. FRAZER, Virgin Islands (Ind.)
CHARLIE ROSE, North Carolina
PAT DANNER, Missouri

RICHARD J. GARON, *Chief of Staff*
MICHAEL H. VAN DUSEN, *Democratic Chief of Staff*
JOHN P. MACKEY, *Republican Investigative Counsel*
PARKER BRENT, *Staff Associate*

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

TOBY ROTH, Wisconsin, *Chairman*

JAN MEYERS, Kansas
DONALD A. MANZULLO, Illinois
SAM BROWNBACK, Kansas
STEVEN J. CHABOT, Ohio
DANA ROHRABACHER, California
DOUG BEREUTER, Nebraska
CASS BALLENGER, North Carolina

SAM GEJDENSON, Connecticut
MATTHEW G. MARTINEZ, California
MICHAEL R. MCNULTY, New York
ROBERT G. TORRICELLI, New Jersey
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York

EDMUND B. RICE, *Subcommittee Staff Director*
JOHN SCHEIBEL, *Democratic Professional Staff Member*
CHRISTOPHER HANKIN, *Professional Staff Member*
ALEXANDER Q. SCHMITZ, *Staff Associate*

CONTENTS

WITNESSES

APPENDIX

STRENGTHENING U.S. EXPORT COMPETITIVENESS: INDUSTRY VIEWS

WEDNESDAY, NOVEMBER 8, 1995

House of Representatives,
Subcommittee on International Economic Policy and Trade,
Committee on International Relations,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:03 a.m. in room 2172, Rayburn House Office Building, Washington, DC, Hon. Toby Roth (chairman of the subcomittee) presiding.

Mr. Roth. Good morning. The appointed hour of ten o'clock has arrived and we want to make sure that we stay on schedule today. We have three very powerful and important people for Congress to hear from.

Today's hearing is a special occasion for myself and for this committee. I am delighted to welcome three very distinguished witnesses, each of whom is a major player in the world of trade.

Let me thank them for being here to discuss what steps our country must take to remain competitive in global markets.

This hearing is the latest in the series in the competitive position of the U.S. industries in the new world of global markets.

Although the United States is currently the top exporting nation, our leadership is under assault. Our competitors in Europe and Asia are pursuing aggressive strategies to take markets away from even the best of American companies, such as Westinghouse and Hughes.

Put simply, we need to fight back or we will see a steady erosion of our exports, our national income, our economic growth and our prosperity.

All of these are linked together, as I see it. We have to wake up because the most important battles among the nations are no longer military. They are economic.

All the futurists that appear before Congress tell us that our national security depends more on our economic strength than on military mite.

Frankly, too many in Congress and the executive branch have been lulled into complacency, even though some trade experts like Paula Stern are doing all they can to raise the alarm.

Meanwhile, executives like Mike Jordan and Mike Armstrong are locked in a furious struggle for market share and growth.

While our government works in conjunction with industry and financial companies, all too often I think the U.S. Government also helps with one hand and throws down obstacles with the other.

We want to eliminate that and that is why hearings like this morning are important. Not only for the testimony we are getting, but in a real way we want to sensitize the people in Congress to the real problems that are out there.

Some people in Washington still believe that the trade policy can be subordinated to foreign policy, but a time has come where it is the other way around, as I see it.

Economics dictates the relationship among nations. Today we will examine our competitive position and discuss how we can remove some of the obstacles to U.S. economic and export growth.

I cannot think of three better witnesses to lead us in that discussion. Before introducing them, however, let me call on some of my Committee Members to see if they have an opening statement.

The ranking Member, Mr. Gejdenson, do you have an opening statement?

Mr. GEJDENSON. Yes, Mr. Chairman.

Mr. Chairman, as you are and many of the Members of this committee, I am a big supporter of international trade.

Exports account for one-third of U.S. economic growth over the last decade. The Administration's goal is to have $1.2 trillion in exports by the year 2000, supporting 16,000,000 jobs.

Growth driven by export is dependent, I think, on a couple of things. Clearly, we must have a level playing field, export financing, promotion, protection of intellectual property, open markets and limits on unilateral controls.

But we also have to invest in our people. While this committee and this hearing is not focused on this issue in particular, I would hope that the important people we have testifying before us spend some of their energy in this town on fighting for education and worker training.

The debilitating attacks on student loans and other things that are going on now in the Congress will frankly make this country less competitive and no matter what our trade policy is, if our products are not superior and competitive, this country is not going to succeed internationally and economically.

In export financing, we spend 75 percent of the funds on agricultural products. The 25 percent that remains on manufactured products is being cut by 25 percent in this budget.

Additionally, the talk of doing away with the Commerce Department as all of our witnesses and I believe most of the members of this panel understand, competing with the French, the German and English and many other companies around the world, is really competing with their governments.

For the United States to diminish the role of the primary coordinating Cabinet-level agency that fights for American exports and fights for American industries' opportunities overseas, I think is a disastrous mistake.

So, while obviously there is a tight focus of this hearing today and I do not want to necessarily put these witnesses in the middle of this crossfire, unless they really want to get there, but I think that if American industry sits by the sideline while we cripple the Commerce Department and our education and training programs, it will take a very short amount of time before they start seeing the impact on their workers.

If American Government is not a full-fledged player with a strong Commerce Department on international trade measures, you are going to see the aggressiveness of the French and others increase exponentially and your situations when trying to enter foreign markets will be worse than they have even been over the last decade.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you Mr. Gejdenson.

I will ask Mr. Manzullo if he has a statement.

Mr. MANZULLO. Thank you, Mr. Chairman. I appreciate the opportunity to listen to the testimony this morning. There are two recent Administration decisions on export policy that have come to my attention that cause grave concern.

Mr. Gejdenson talked (rightly so) about the role—that we should have a strong Commerce Department, but the White House has self-destructed on export, a strategy which could cost us billions of dollars.

Let me give you two instances. Perhaps your testimony may refer to them. On September 22, an interagency group of the National Security Council issued a memo to the Eximbank informing them that they should refrain from offering U.S. Government financing assistance to U.S. companies wishing to sell their goods and services to China to construct the largest public works project in the world, the Three Gorges Dam on the Yangtze River.

Because U.S. companies would not be able to receive lower-rate Eximbank credits, foreign competitors will win those contracts with financial backing from their home country export financing agencies.

There is a small cadre of Administration officials outside of the Trade Promotion Coordinating Committee process, who have little or no business experience, that has hijacked our nation's trade promotion agenda to impose their own personal points of view on our nation's exporters.

The same thing again happened with the guaranteeing of a gold mine investment in Indonesia where the Overseas Private Investment Corporation (OPIC) pulled the plug.

These are government agencies that are self-destructive and destroying jobs. As vice-chair of this subcommittee and as chairman of the Small Business Subcommittee on Exports, we will have a joint hearing, hopefully soon, examining this new policy asking Administration officials why they are destroying billions of dollars in exports.

They are trying to keep firms such as Caterpillar from receiving favorable Eximbank financing and forcing the Chinese to go to Japan and buy these machines.

Billions of dollars worth of exports are being destroyed by our own Democratic Administration. So in the course of the testimony, if we want to get partisan, Mr Gejdenson, perhaps our witnesses would like to enter into the foray also. Thank you for being here.

Mr. ROTH. Mr. Rohrabacher, as our key spokesman with the Bosnia situation that is up for a big debate this morning, I especially appreciate your attendance this morning, because I know of your strong interest in exports. Mr. Rohrabacher.

Mr. ROHRABACHER. Mr. Chairman, I apologize to our witnesses. I will have to run off to participate in the Republican conference which is deciding whether or not we are going to be opposing the introduction of American ground troops to Bosnia and it is an important discussion. I will have to leave in about 20 minutes and I am one of the leaders in that debate.

Mr. Chairman, I would just like to make a few points and then I will be interested to hear what the witnesses have to say.

In leading up to this from our conversation in the back room a few moments ago, I do not believe exports, in and of themselves, are the holly grail. I think that a lot of people have gotten their values screwed up in this whole debate.

Exports can be a very positive thing. It can be a very positive thing for our economy, but at some levels, exports, while positive toward the economy, can be negative toward other elements of our society.

No one would have, for example, suggested that we build Hitler's freeways for him before World War II and that that would have made Hitler any less of a Nazi.

Even though building freeways for Hitler is infrastructure, it would have permitted him to have spent more money on Stukas.

I happen to believe in free trade between free people. I have no problems when free peoples are trading with one another in a very open way and making profit from one another.

There are some people in this Congress who think that free trade is a bad thing. I think it is a good thing. But when you come to a situation when we are dealing with dictatorships, as has just been mentioned in the Three Gorges project in China, I think we need to put other things in perspective, rather than just the amount of money flowing into the pockets of our corporations.

In the long run, that may not be a good deal for America, if by financing projects like the Three Gorges project, we permit the Chinese to use other resources to build up their army, to build up their other elements of a very repressive regime.

In fact, by using capital that we are using, basically taxpayer's capital, to subsidize the building of infrastructure projects in unfree societies, I am afraid we are also drawing from a capital base that could be used for infrastructure projects in the United States.

If this is so, people wanting to build infrastructure projects in unfree countries like China, I believe they should be free to do so. That is why I have supported time and time again the loosening of export restrictions, but that does not go with the other step, where we should subsidize those exports to unfree societies.

I think perhaps we should have a rule and I would like to hear the panel's reaction to this, that people who trade in unfree societies, businesses that trade, should be doing so at their own risk and with their own dollar. If they cannot, the taxpayers should not be subsidizing these sorts of deals.

With that, I will just say that if we do offer a rate at the Eximbank, a lower interest rate to our people to build and to sell in other countries in terms of infrastructure building, what we have done is we have taken that money right out of the pool that

goes into people's houses or people who want to build businesses in the United States.

I think those are points that we need to discuss. I am looking forward to hearing the opinions of our panel. Thank you very much, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Rohrabacher. I know your feelings are very deeply felt. I mean after all, you were a speech writer for Ronald Reagan. It is a point of view that we definitely want to consider.

Marty Martinez is with us this morning, as one of the more astute Members in the entire Congress. Marty, do you have something that you want to say?

Mr. MARTINEZ. No. Not really except that some of the comments that my colleague, Mr. Rohrabacher, makes leaves you to wonder exactly where the consistency is in arguments that take place here in this committee or in Congress.

For Mr. Rohrabacher's information, before World War II and before we got into it, there were major corporations, General Electric being one of the big ones, in Germany building and helping them develop their economy, as well as making a profit for the United States. The major parent corporation here in the United States.

That has gone on throughout. The inconsistency is, look on one hand you say you need free trade so that you can build the economy here in the United States, we have free trade jobs here.

On the other hand, you say, well we do not want to build in these countries because of some particular government policy they have or some institution that we disagree with in that country.

Those things aside, we are in a world market today. In a world commerce. Our companies ought to be helped by our government, the same as other governments are helping other countries, because when we do not, they compete not on a level playing field, but at a great disadvantage.

I think Mr. Manzullo referred to the Yangtze dam project and where one of our companies did not get that because the companies they were bidding against were subsidized by their government.

If you are going to change the world, you are going to do it a little at a time and you are going to do it more with constant influences that develop, because of business relationships and other things over a period of time.

You are not going to say, I want it this way and this is the way it has to be and that is it, because that is our standard. All these countries have different standards. They are in a different stage of evolution in their democracies, if they are democracies.

I do not know of any democracy that is as evolved as ours and yet we do business with a lot of democracies that I would not say are actually democracies.

Mexico is a good example. You know for years one party has controlled and been dominant there and controlled elections. They know 6, 7, 8 years in advance who is going to be President. Is that a free election? You actually can predict who is going to be President and who is going to hold all the offices.

When Depon was fortunate enough in more recent years to win an election, initially the President would take it away from them. Declare it illegally and that is a democracy?

But yet wait, we have a free trade agreement with Mexico and right now, if you look at some of our companies there, UPS is a good example, they are arguing over the size of a small package.

What is a small package? They say you can move small packages UPS in our country, but they cannot be any bigger than 2 ounces. I mean that is absolutely ridiculous.

So, there are things that have to be worked out, but I do not think we help anything by denying the aid that our companies need and the help that our companies need in moving abroad and moving our markets abroad, because after all, they do bring it back home in the form of jobs and other things. Thank you, Mr. Chairman.

Mr. ROTH. Thank you. This goes to show you that this is a topic of great interest. Marty, it is good to have you here.

We have Jan Meyers with us, the chairman of the Small Business Committee. She is a very powerful Congresswoman and I would like to ask her if she wants to say anything.

Mrs. MEYERS. Thank you. No opening statement, Mr. Chairman. I am extremely interested in what our witnesses are going to say.

Trade is obviously the issue of the 1990's and it is very much reflected in my district in the greater Kansas City area. I look forward to hearing the testimony.

Mr. ROTH. Thank you very much, Chairwoman Meyers. Let me say, we are very pleased and this is no false political flattery, to have three such distinguished people before us this morning.

I intend to make sure that the testimony is not only heard here, but as you can see from the diversity of opinion, that the entire Congress, all 435 Members, receive this testimony. I intend to make sure that it is distributed to them.

Now, we are going to proceed with our witnesses this morning in a panel. We have your written statements, which we are going to place into this record. I am going to make sure it gets into the other records around the Hill.

Let me ask each of you to take 5 or 10 minutes to summarize your testimony and after you have spoken, we will open the floor for questions.

With the three distinguished witnesses, it is hard to decide who should go first. Let me proceed alphabetically. I am doing this for a number of reasons. One, because the other day in the cloak room, we were talking and I was making a statement about the economy.

One of the other Congressmen said, heck, that is just Hughes' viewpoint. Toby Roth never deviates from Michael Armstrong.

Let me just say that we are doing this alphabetically and Michael Armstrong is the first one. He is chairman and chief executive officer of Hughes Electronic Corporation.

Mike Armstrong has built Hughes into the world's largest manufacturer of satellites. Hughes also leads the way in a number of cutting edge technologies.

No doubt, this is the reason that President Clinton has selected Mike Armstrong to chair the President's export council and advise the White House in trade policy.

I also want to urge my fellow colleagues to look at *Inventing The Future*. It is quite a book. I am going to leave it here for the other Members to page through.

I think it is the type of thinking that we need, especially in the United States today. So let me begin with Mike and then we will go with Michael Jordan and then with Dr. Stern. Mike Armstrong.

STATEMENT OF C. MICHAEL ARMSTRONG, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HUGHES ELECTRONIC CORPORATION

Mr. ARMSTRONG. Thank you, Mr. Chairman. I am sorry that Mr. Rohrabacher has to leave.

I think the first principals that he brought up—trade being a tool of foreign policy, financing of trade being considered subsidization, and the issue of determining our values as a judgment in our trade policy—are three principals that I wish he were staying around to debate.

I offer at least my time and interest in those subjects, either in this environment or a private environment, to continue that debate.

I really do appreciate this opportunity, Mr. Chairman. About 5 months ago, I had the honor of appearing before this panel. Since then, unfortunately for both of us, little has changed for American companies.

We still face enormous competition from foreign competitors and seek exports as an avenue for our growth and jobs. We still see too many government policies and practices as export inhibitors.

In today's global market, government can and should be an important export enabler. But of all that remains the same, there are conditions that have changed since I last sat at this table.

The urgency of the situation has increased. Barriers around the world are coming down. The global competition with foreign government support is tougher than ever. With continuing cold war policies on our government books, our ability to build market share and sustain technology leadership is increasingly at risk.

While I appreciate that both the Clinton Administration and the Congress have set aside partisan differences to pass NAFTA and GATT, the failure to change our policies on export control could undo much that has been done by this strong government leadership.

This committee is well aware of the role that exports, particularly high technology exports, play in the growth of the American economy.

What I would like to underline today are the changes we have witnessed in the global economy and their implications for several of the guiding assumptions from the old cold war era.

Today, our country's research and development is no longer defense driven. With our current cold war policies and half of the old defense budget, the balance has shifted, irreversibly, to commercial research and development.

It is now the commercial sector that is feeding important advances in the defense systems. This change requires an inversion of the cold war credo that national security often required a conscious devaluing of economic security, for instance, by limiting trade out of concerns for technology transfer.

Today, if commercial R and D is integral to defense capability, limiting commercial technologies' advance could have an adverse affect on U.S. defense industrial capability.

This is an argument that simply understands that technology travels. If American companies are not at the forefront of markets, they will not, over time, be at the forefront of technology. Thus, we will suffer both in our commerce and in our military.

This dual use demand on commercial R and D puts pressure not only on companies to keep up, but for government policies to keep pace. Take the reduction in cycle time and its impact on competitiveness.

In the 1970's the life span of many technology products was about 7 years. In the space business, for example, Hughes used to take 2 to 3 years to build and launch four to five satellites a year. Now we build satellites with three times the power in 18 months and will launch 15 satellites this year alone.

While we serve a more global market, a more competitive market, it is also a more difficult market with the U.S. Government that maintains cold war commodity jurisdiction an outdated munitions list, unrealistic licensing cycle time, uses trade as a primary tool of foreign policy and has uncompetitive processes that do not support an export society.

The contest between technology and bureaucracy is a lopsided one. Orwell had it upside down. Technology is not a tool of tyranny. Technology is less likely to limit than to liberate.

Technology outstrips our ability to contain and quarantine its advance. So what bureaucracy does is really quite predictable. It slows technology in order to control it, but not without cost.

As U.S. companies struggle against red tape, companies from other countries win market advantage by becoming first to market with a customer base and loyalties that are hard to break.

As a consequence, American companies lose market share and the revenue growth that finances the next generation of research and development. That, ladies and gentlemen, is the beginning of the end of American competitiveness.

Now what can we do about it to create a positive environment? Let me begin with a general observation and several specific recommendations.

On the national level, we need a rational, understandable export system—a consistent, reasonably simple, coherent way to make export policy and adapt to market realities.

In contrast to the present Tower of Babel that results from the diffusion of export policy across the Federal bureaucracy, I think we need the equivalent of an export operating system.

The complexity of Washington on trade policy has outstripped by orders of magnitude the pace of technology and the change inherent in the market system.

If this Congress is to liberate us from the bounds of government, please give us a system that accommodates change, rather than defies it; one that is usable, rather than virtually useless; that is adaptable, rather than entrenched.

Sometimes, however, even without an operating system, selective positive things can happen. The Clinton Administration's recent easing of export controls on computer capabilities is an example.

But I think these exceptions almost prove the rule. Today any link in the chain, any player in export policy, from agency to department, can exercise a de facto veto power simply by remaining inactive.

Bureaucratic inertia, the power of a government body at rest to remain at rest, is a potent force in the policymaking agenda.

Beyond the need for a new export operating system, I would appreciate providing a snapshot of what we would like to see from Washington.

First, we need a new export administration act: revised, revamped, and export-driven. One that comes in from the cold war and reconciles government policy to the new realities of our global economy.

No one denies that national security concerns are serious matters. I submit the old system fails on both counts. It cripples American companies and it fails to control the right technology.

Controls that bind the United States only leave other industrial nations, our allies, an open field. The result is that countries we mean to punish often get the technology from our competitors anyway, and unilateral sanctions seldom change errant behavior. That is simply counterproductive and it is costing us jobs and output.

We need to pursue more vigorously multilateral action, if sanctions are required. We need, at a minimum, to have a process to work with the industry affected that stops us from maximizing American layoffs as our punishment for Third World behavior.

Second, as I mentioned, we need an end to the practice that leaves commercial technologies on the munitions list. Communications satellites are my company's immediate concern, but ours is by no means the only industry caught in the munitions net.

Commercial aircraft engines, encryption technology, these and other technologies are listed as munitions and therefore, can be excluded from export, while other countries pick up the business.

Anomalies abound. Right now, U.S. commercial aircraft, like a Boeing 747, are routinely approved for export and delivered to foreign customers, all technology intact, while communicating satellites, with less technology content, have previously been excluded from export. This is ridiculous, as satellites are launched into orbit and never in any way delivered to a foreign customer or country.

Again, the United States, not the target country, is the one that pays the price—lost jobs and eroded competitive position.

My plea is for the government to put commodity jurisdiction for commercial products under the Commerce Department and to take commercial technology off the munitions list.

Third, American companies large and small, as we compete for business abroad, are often competing against foreign government competition. We need the advocacy and support of our own government.

The idea that all our government needs to do is to let the private enterprise system work unimpeded in international markets is outdated and naive. Much of what is bought in international markets is foreign government-controlled or influenced.

France, Germany and Japan understand this very well. For example, within weeks after our MTCR sanctions on China had included commercial satellites, Helmut Kohl, on a joint trip to Beijing

with our competitor DASA, declared that Germany did not use commercial trade in its foreign policy and China promptly transferred a multi-billion dollar satellite agreement from Hughes to DASA and with it thousands of American jobs were lost.

In addition, let me state unequivocally that Eximbank and OPIC financial support is not a form of foreign aid. It is a necessity of being competitive in foreign markets. Foreign government financing is an international market reality. To withdraw or downsize our government's financial competitive support is unilateral international economic suicide.

This Congress should be seriously debating how to expand exports, not how to eliminate the Commerce Department or reduce financial support. If you want your market system to work in this country, then get to work on expanding exports.

In concluding my introductory statement, I want to congratulate Congressman Roth and his colleagues on this committee for the insight and understanding they bring to this critical issue and for sharing my urgency that action is imperative.

There are few policies today with more profound impact on our future, our standard of living and our national security than the policies controlling export opportunities. Thank you, sir.

[The prepared statement of Mr. Armstrong appears in the appendix.]

Mr. ROTH. Thank you again, Mr. Armstrong, for your excellent testimony before this committee. We can always benefit and profit from it and we appreciate it very much.

Before we go to questions, we are going to call on Mr. Michael Jordan, chairman and CEO of Westinghouse Corporation. There are few, if any, corporate leaders who have a longer or more successful record of achievement in international trade.

Mike Jordan was elected chairman of Westinghouse in 1993, after having directed Pepsico's highly successful international operations. Mike Jordan oversees a diversified corporation, with a breathtaking scope that includes electronics, power plants, robotics, consumer goods and of course, broadcasting.

By acquiring CBS, Mike Jordan has now made Westinghouse the biggest broadcast company in the country. President Clinton named Mike Jordan chairman of his advisory council on export controls.

Mike Jordan, please proceed with your testimony and we will put all of it into the record.

STATEMENT OF MICHAEL H. JORDAN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, WESTINGHOUSE ELECTRIC CORPORATION

Mr. JORDAN. Thank you very much, Mr. Chairman. Now that the cold war has ended, American trade sanctions are becoming an attractive option for punishing rogue developing nations.

On the surface, they may seem like a good idea, but as we dig deeper, you find that the American economy pays a very significant penalty for these unilateral economic sanctions.

What I want to do today is give you some solid examples from my formal written testimony and to conclude with some recommendations about how to shape these economic sanctions, which

are a political reality in a way that minimizes the damage to the U.S. economy.

For background, we calculate that the United States had in 1992 economic sanctions with ten countries and we paid a very high price for them.

This is chart one here, which is the one on the left, as you see it. It just shows our market share throughout the world in exports compared to the share in these ten countries. This cost us roughly, on this calculation, $11 billion in exports, which is almost 225,000 jobs.

Last year the Council on Competitiveness documented eight specific industry cases of unilateral sanction. From this analysis, American industry lost $6 billion in annual sales from those eight cases alone.

The one I am most familiar with is the U.S. embargo on commercial nuclear power sales to China. Here again, the United States is going it alone. Of course, China is acting predictably at our expense.

A little background, by the year 2020, China, with their significant power need and their shortage of any other fuel, besides coal, has determined that 20 percent of their power requirements should come from nuclear power.

There is a good reason for this, because this coal is very highly polluting. As a matter of fact, it has already put more pollution in the atmosphere than the United States has reduced over the last 30 years.

Yet this embargo has sidelined U.S. firms from supplying commercial nuclear technology that China wants and needs and they have told us very clearly, they want us in preference to the French or the Germans. Yet France, Russia now and Canada are moving to serve this $55-billion market over the next 25 years.

What concerns us, not only is there a window of opportunity that we are missing, but it is likely that the European standards, especially the French standard, will be adopted over the next several years and their industry will move forward, with the French in clear command.

That not only hurts us economically, we at Westinghouse who developed this technology originally, but it also weakens the international safety regime that we have worked to impose in the China program, because the United States still has the strongest and most aggressive nuclear safety program in the world.

Now China is the only major market that really is going to support the nuclear power industry over the next 25 years. Certainly the United States, with its surplus-generating capacity is not going to do that.

So, we see that if we are shut out from the Chinese market, our position as the technical leader in the world will erode. That technology has been the key to our leadership in the industry worldwide and is also the technology that has supported the nuclear navy, since 1948.

Well, what about the indirect costs of unilateral sanctions? Export sanctions indirectly contribute to worldwide perception that the United States is an unreliable supplier.

Here are some examples. Where Airbus once relied primarily on U.S. engines only, two of the latest three Airbus aircraft now offer non U.S. engines.

China and India, which are both directly affected by U.S. unilateral sanctions, are hedging against future sanctions by maintaining a significant share of Russian aircraft in their fleets. The Russians are only too glad to provide those as a source of hard currency.

Some European firms avoid American products, unless no substitute is available. So, unilateral embargoes, as we know, do hurt American industry, American workers and our economy indirectly.

What is really disturbing is the extraterritorial reach of our sanction programs and the one on the Soviet pipeline embargo is a very painful example. This took place in 1982.

In this case, the United States expanded the embargo already in place by prohibiting U.S. manufacturers from importing turbines for the pipeline compressors required to send gas through the pipeline.

The expansion included foreign subsidiaries of the firms and prohibited foreign firms from exporting U.S. origin goods and technology.

Before U.S. policy expanded the embargo, one major American supplier's European licensees had contracted to supply turbines to this pipeline project, but the expanded embargo served to strengthen major European competitors for the U.S. supplier.

These competitors made rapid gains, both in market share and in technology. It took our suppliers many, many years to regain their competitive standing, not just in Russia, but in the world.

Our foreign competitors got a real head start in the international marketplace and permanently destroyed our marketplace position.

These boycotts are damaging in other ways as well. Foreign governments retaliate against U.S. origin products or they punish national firms that cooperate with the U.S. sanctions.

For example, Canada, the United Kingdom and Germany penalized their national firms for honoring the U.S. sanctions against Cuba.

We believe we can design economic sanctions that will greatly improve their effectiveness with minimal or much less damage to our economy. Here are our recommendations.

First, and I think this is the obvious one, that our country should impose unilateral sanctions only in cases of imminent national emergency and only if they show promise of working. Without multinational support for these sanctions, U.S. companies just lose, period.

Second, legislation and regulations for foreign policy sanctions should minimize these concepts of extraterritoriality and re-export controls.

The situation that is in place today, for example, in interpreting the Iran sanctions is that European suppliers have said, we are just going to design American components out of our product, because we do not want to get involved with this stuff whether it is going to go to Iran or not. We are just better off without the U.S. components.

Third, we should adopt criteria from the Administration's 1994 export administration act, legislative package, for imposing and

maintaining all trade controls. We should add to these, the criteria that are in Chairman Roth's H.R. 361 proposal.

Here are those criteria. Require the Administration to commit to turning unilateral sanctions into multilateral ones within a reasonable time to assure their true effectiveness in achieving any kind of foreign policy goal.

Fourth, obviously, to look at other forms of diplomacy, especially on the incentive side, to achieve those goals, including economic aid, regional security assurances, access to international financing and others.

We think it is important to require the Congressional Budget Office to score the costs of these proposed sanctions and even looking at what would it have to be to be tax neutral, because these things do, in fact, lessen revenue, lessen profits and lessen corporate taxes paid to the government.

Fifth, we think it is very important for the Administration to consult with industry to assess, up front, the costs and damage of these potential regulations.

We think there ought to be a meaningful sunset for some of these, rather than having just somebody stick their neck out and say, gee we ought to get rid of this, we ought to have these sanctions sunset at a period of time and positively re-authorize them, if the foreign policy goals are still meaningful.

Finally, we would suggest that the Congress mandate a study on this whole area of unilateral economic sanctions and trade control to try to get as much data as possible on the cost to the U.S. economy of sanctions against countries that have recently been targeted and to find ways, very importantly, to simplify and reduce the compliance requirement costs, making them more user-friendly.

Sanctions rules are very turgid, very difficult to interpret and the regulations come out sort of after the fact. In the case of the recent Iran sanctions, the group charged with administering those controls is hopelessly understaffed versus the rest of the agencies dealing with trade.

Mr. Chairman, that concludes my formal statement and at the end, obviously, I will be happy to respond to any of your questions. Thank you.

[The prepared statement of Mr. Jordan appears in the appendix.]

Mr. ROTH. I thank you very much, Mr. Jordan. I wish you would not have that caucus this morning dealing with lobby reform in Bosnia, because I know there is, as you can tell, a big diversity of opinion in the Congress and it is well represented on this committee.

I am going to ask my friends here that are working on the staff to see if they cannot hijack those charts, because I want to put those up in our cloak room so it really drives the message home to the Congressmen.

Now we will hear from Paula Stern, who is in the front lines of the trade policymakers here in DC and after having served as chair of International Trade Commission, Paula Stern has moved into the realm of advising major corporations on trade issues.

Paula, it is nice to have you with us this morning and to share your views. After you have summarized your views, we will put

them all into the record and then we will have a few questions. Thank you very much. Dr. Stern, please proceed.

STATEMENT OF PAULA STERN, PRESIDENT, THE STERN GROUP, INC., FORMER INTERNATIONAL TRADE COMMISSION CHAIRMAN

Dr. STERN. Thank you very much for this opportunity to testify today. The speakers whom you have heard from so far have done a wonderful job of setting the context in which we look at these export control regimes, the need to recognize the technological speed up and to invert our cold war credos about the relative importance of economics and national security, as well as discussing the consequences of unilateral sanctions.

Congressman Rohrabacher had raised the overall issue of how the United States balances the competing interests of this great nation, and that is what I would like to focus on: how to make a systematic break in that bureaucratic inertia that was referred to by Mike Armstrong.

Thus my testimony ties together what you have heard today with the previous hearing on reorganizing the government.

Today's Washington political environment offers a golden opportunity for reorganizing the Federal Government to craft and implement trade and other international economic policies, particularly export regulation.

It creates conditions first to consolidate many of the now scattered functions into a remodeled Cabinet level—the U.S. Department of Economic Industry and Trade Affairs. Second, it is an opportunity to rationalize and downsize to fit new budget realities.

Although the restructured department that I spell out in detail in my written testimony would not bring every trade function of the Federal Government into a single agency, its creation would reduce the current unhealthy level of fragmentation in international economic policymaking.

Today, the policy structure is encouraging bureaucratic rivalries, duplication, lack of communications, and an undesirable separation between policy development and policy implementation.

In brief, it inhibits formulation of trade and commercial policies that best represent the overall U.S. national interest.

Two basic premises underlie the idea of a new Department of Economic Industry and Trade, a refocused Department of Commerce.

The first is that the appropriate Federal activities that facilitate trade, promote exports, as well as generate information for the private sector to trade overseas are vitally important functions and should be maintained by the Federal Government. Yet, most of the recent restructuring proposals put much greater emphasis on the more visible and adversarial activities of the Office of the U.S. Trade Representative in negotiating and in wielding section 301 and on the pursuit of dumping and countervailing duty complaints by the Department of Commerce's Bureau of Import Administration (IA).

Now these exercises have an important and legitimate role, but they are not the totality of the government's trade operations or even the biggest part.

In all of this discussion, the reorganization to streamline the export control regime seems to be almost an afterthought, not so much in this committee, but I would say in general discussions elsewhere. The export controls regime is still a stepchild of U.S. trade policy.

The second premise that underlines the plan that I shall spell out is that officials responsible for formulating and implementing U.S. trade policy should have ready access to information about their actions that could affect all industries individually, both in the U.S. market and in overseas markets. Policy makers need to know how their individual actions in trade impact on the economy as a whole.

So this broader perspective should be institutionalized by ensuring that a new department reflects the close relationship between foreign trade and the broader economy.

This goal is particularly important, because of all policy areas. If you think about it, trade involves the largest number of inherently competing interests. There are the competing domestic interests, whether they are producers or consumers, manufacturers and importers of components versus producers of finished goods, and producers versus exporters.

There are the competing international interests. Domestic producers versus foreign producers and the producers of one foreign country versus those of another competing for the U.S. market.

Finally and most specifically relevant here, there are the competing intra-governmental interests. The competing values that Congressman Rohrabacher referred to. Interests such as U.S. commercial policy versus the various objectives that we wish to pursue in U.S. foreign policy and in U.S. international security policy.

Each set of tradeoffs has policy implications. A new trade structure, I think, could handle these tradeoffs more effectively.

The reconstructed trade regime I am proposing would be better able to view these competing interests objectively, while enjoying credibility and a reputation for fairness, domestically as well as internationally.

The focus so far has been on consolidation and that is very important. But there are also trade functions that must have the ability to maintain independence to guard against the appearance of bias—bias toward any one special interest.

The restructuring plan that I spell out would allow such independence to be preserved for individual agencies within a larger Cabinet department, as currently is the case, for example, in the Import Administration within the Department of Commerce. This is important for enforcing trade laws, both the trade laws that deal with imports, such as dumped and subsidized imports; and it is important to have this independence when dealing with export restrictions, because of competing national security or foreign policy considerations.

The centerpiece of the trade remodeling strategy is a Cabinet-level Department of Economic, Industry, and Trade Affairs. It would be a comparatively small department, consisting primarily of the existing Office of the U.S. Trade Representative and the economic and trade functions now located within the Department of Commerce. It would also incorporate the Eximbank, the Overseas

Private Investment Corporation, the Trade and Development Agency and the Small Business Administration's export assistance programs.

The Department would have primary responsibility for implementation of import and export controls for export promotion, trade negotiations, industry analysis, and economic data collection and analysis now carried out by the Department of Commerce's Bureau of Economic Analysis and Census, the Labor Department's Bureau of Labor Statistics, as well as the tiny office of economics in the USTR.

Let me turn my remarks now to focus on the radical reform that is needed in export controls. The end of the cold war has rendered the rationale for the old regime obsolete and of course, both components of our control system of the cold war era, the CoCom and the Export Administration Act, have expired.

Export control decisions directly affect both pillars of America's strength, both its economic commercial health as well as its military effectiveness.

So, in this post-cold war world, the United States cannot afford to penalize its own economy with these outdated, unilateral controls nor should it accept the risks of an ineffective international control mechanism.

The speed of technological advance demands that these decisions be made quickly and that they be updated continually—imperatives that suggest two criteria for measuring the adequacy of any future export control system.

First, decisions must be free of any special interest influence or bureaucratic bias and second, they must be made on up-to-the-minute information, based on accurate intelligence.

So in this changed world, the challenge of balancing the widely different concerns of the departments with direct interest in export restrictions—the Departments of Commerce, State, Treasury and Defense—cannot be met effectively by simply re-balancing the authority among them.

I think the problem requires setting up a new consolidated structure. I call it the Export Restriction Assessment Commission. This commission would function as an executive branch agency, affiliated with the Office of Trade Affairs similar to the way the IRS (the Internal Revenue Service), relationship exists in the Treasury Department.

This independent commission would be functionally autonomous. It would be charged with developing objective assessments of the security significance of certain technologies and on assessing their availability from non-U.S. sources.

The Commission would feature independent commissioners, like the U.S. International Trade Commission, my old agency, and more importantly it would feature the professional staff drawn from the pool of specialists that are now housed redundantly in the Departments of Defense, State, Treasury, and Commerce.

It would receive private sector input in a hearing process. Unanimous decisions among the commissioners would be enacted immediately; and export restriction would either be lifted or imposed accordingly, if it is unanimous.

When the commissioners are split and I suspect that this would be in increasingly rare times, the issue would then be sent to the President for resolution. Administering the export control decisions would be handled by the Deputy Secretary for Trade in the new restructured department.

Fundamental and far-reaching changes are needed, in terms of the government's overall approach to export controls, sanctions, and embargoes.

Exporters have the right to expect more from their government, especially given the critical role they play now in today's economy and the return that they now offer to the United States in terms of improved standards of living and enhanced national security.

Current law and regulations place too heavy a burden on exporters, particularly on small- and medium-sized businesses. The code of Federal regulations imposes massive volumes of regulatory constraints on them, requiring very sophisticated and in-depth understanding of overly complex requirements imposed on the most routine of export shipments.

The division between munitions and commercial controls in U.S. law requires these companies to build costly product classification systems or to hire outside experts who can perform this role for them. Educating their shipping locations, their business partners, their overseas operations, their transportation providers, and their executive management on the ins and outs of massive regulation stemming from often overlapping and contradicting statutes is an enormous burden.

This regulatory burden is uniquely onerous for U.S. exporters. I am told, in contrast, that even the requirements of Canada (which is recognized by the U.S. Government as being one of the best among our closest allies), are manageable, easy to understand, and can be read in less than a single hour.

The Canadian exporters, as do those in other countries, benefit from, in effect, a "one-stop shopping," where they need only go to one government agency for any export license approval. That is what I am trying to spell out here.

So to summarize, the United States needs to undertake a massive reform of all laws and regulations governing export controls, sanctions and embargoes.

Since most regulatory export restrictions in the United States are required by law and therefore not subject to Administration discretion, the Administration should submit to Congress a major legislative reform package.

The package should consolidate all existing statutory requirements governing export controls, sanctions and embargoes, including among other things, the Export Administration Act, the Munitions Act, the International Emergency Economic Powers Act, the Nuclear Non-Proliferation Act, the Defense Production Act, the Trading With the Enemy Act, and others.

It should also present legislative reforms that would require the consolidation of all policy, licensing, export restriction intelligence, and enforcement activities into this single entity.

Preferably that would be an entity, as I spelled out, within a Cabinet-level department that has as one of its principal objectives the promotion of American trade interests.

I believe these recommendations, when implemented, will do much to help promote the competitiveness of American exporters, thereby contributing to the maximization of benefits that are being realized from the so-called "traditional" trade initiatives, such as GATT and NAFTA.

I believe that they will be consistent with the country's national and international security concerns. I thank you very much.

[The prepared statement of Dr. Stern appears in the appendix.]

Mr. ROTH. We thank you, Dr. Stern, for your incisive and well organized presentation.

We have been joined here by Congressman Faleomavaega, who is one of the biggest supporters of nuclear testing in the Pacific. In fact, we all admire him because he dared the French to blow off a nuclear bomb on his island. It is good to have you back with us, Congressman.

We have also been joined by Congressman Sam Brownback. Sam, I know this is a topic of great interest to you and we appreciate you joining us.

Now let me ask a few questions and then we will go to our Members. I am going to ask Mike Armstrong and Mike Jordan to come forth to our committee with three bold new ideas on how we can pull Congress's attention on this issue.

The reason I say that is because we have Members here who are very much interested in this topic, but cannot be in two places at once. Members have caucuses and other meetings to attend. We are all over the place.

If Benjamin Franklin and Thomas Jefferson were resurrected and they could come back, they could easily understand what we are doing here in Congress, but they would not have the vaguest idea what you are doing in your industry.

I was down the other night at the Smithsonian, Mike, the huge gala, and you talked about the future and what you said would completely blow their minds.

We have to have a way of focusing Congress's attention on these vital issues or Congress is not going to be able to handle the 20th century.

We have to update this institution so they can focus on grappling with these ideas. I am going to ask at least the two of you to come forth and give me three bold ideas that I can go to the Speaker, our leadership, or the Members of this committee and try to have some innovation so that we can make the changes that are needed.

Dr. Stern talked about some of these changes and I have been working with them now for 8 years. We have not progressed and are still back to square one.

When Westinghouse had a problem fighting the French in India 7 years ago, I helped them try to win contracts. We were successful in India, but it took months to get the work done and it was because I loved the people in Milwaukee.

You have a great group in Milwaukee, Mike Jordan, but we have to make these committee meetings zero in on the things that have to be done. The only way we can do that, I think, is by getting the attention of the Members.

Mr. ARMSTRONG. Mr. Chairman, may I put one of those ideas forward right now?

Mr. ROTH. Yes.

Mr. ARMSTRONG. Because we had it within our grasp and the politics of the current environment took it out, because I believe exactly what you said.

We went, Mr. Jordan and I and several other members of the President's export council, to Mr. Gingrich. We said, trade and the benefit of this economy, jobs and the future of our grandchildren, depend on us having a competitive export system.

It should be bipartisan, and the Speaker agreed. He said, the way to lick this thing, because of the inertia, is to have a bipartisan conference—a full-day conference that I and Speaker Gingrich will sponsor with the Democratic leadership. After that conference, we will have outlined an agenda with the businessmen in attendance, and if you will pick up the businessman's role, a set of hearings on the critical issues. I pledge that together, with the Democrats, we will get that stuff passed.

Well, that was supposed to be set up for November 8.

Mr. ROTH. That is tomorrow, is it not?

Mr. ARMSTRONG. That is right. It has been pulled. I guess the thing that I would ask of this committee is to put pressure on both the Administration, as well as the leadership of Congress to follow through with that conference so that the Administration, the Congress and the business leaders can spend a full day putting the issues on the table, teeing them up for hearings, scheduling the hearings and getting on with getting something done.

Mr. ROTH. We will follow through on that.

Mr. ARMSTRONG. Thank you, sir.

Mr. ROTH. What would you like to see this Congress do, Mike Armstrong, or not do in this next year relating to exports, other than pass the Export Administration Act?

Mr. ARMSTRONG. I have been so focused, Mr. Chairman on the Export Administration Act and the implications that it has on commodity jurisdiction, on licensing, on munitions list, on a process to involve business, if there has to be sanctions on the being multilateral, that if I had a second agenda, it is so far down the list that I would hesitate to bring it up to this committee's attention. I believe that a strong Export Administration Act, and all the implications and splatter in world markets of such an act, are so important to this country that I guess it is like when you are shopping for a new house and you ask the agent, what is important? Location, location, location. I submit to you that what is important is a strong Export Administration Act in all three priorities.

Mr. ROTH. Thank you.

Mike Jordan, I could not help but be impressed when you said that China is putting more pollution into the air now than all of our regulations and restrictions have possibly eliminated.

Can you elucidate a little bit on that? It would seem to me that rather than stymieing our exports of nuclear power to China, you would have all kinds of allies promoting that.

Mr. JORDAN. Yes. It is very interesting. This statistic is one that is very seldom understood, but if you go to Japan and talk to the Japanese, they know that very clearly.

The Japanese are very concerned that China's nuclear program benefit from the experiences that the United States has gotten and

really our leadership in designing regulation and technology to control nuclear safety around the world.

Westinghouse, for example, was chosen by the Czech Government to upgrade reactor plants built by the Russians to bring them up to western standards and ultimately to bring them up to U.S. standards. Our control regime, in the Nuclear Regulatory Commission and our technology, is really far superior to the French (and we, Westinghouse, gave the French that technology 25 years ago) or the British or the German or the Canadian or by far the Russian.

But the pollution issue is very, very critical for China and even the Government of China has recognized that they need power so badly in these large cities, like Shanghai, which is now 20,000,000 people and growing and they are very concerned about the pollution, but especially their neighbors are very concerned about both the pollution and the nuclear safety of the Chinese programs.

But the Chinese, they are going to have the world's largest nuclear power program. They have to, because their coal is in the north and west of China and the people are on the east and south. Seventy-odd percent of their rail car loadings are coal.

So, they are just choking their whole system. They will have more nuclear plants and we are either there soon or out of it.

Mr. ROTH. I visited your work in Prague—Westinghouse's building, as of course you know. I was interested to see that the tourists are your strongest support for your efforts to prevent pollution from destroying this beautiful city.

Tourism is the second largest industry in the world today. It will be the largest industry in the world in only 5 years. One out of every ten people in the world is working in tourism.

It would seem to me that companies like yours would focus on something like this industry. It would be a tremendous advantage here on Capitol Hill. Using the support from the tourism industry would drastically increase your power on Capitol Hill.

I am not here to give unsolicited advice. I am trying to think of ways to make a 17th century institution, such as Congress, work with someone in the 21st century.

This is very important for us to bridge these gaps and decide how we can make these institutions work together. This, in my opinion, is the biggest problem we face.

We are in the 5-minute rule, so I will come back to some other questions. Let me go to Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman. I think we should note that this administration has moved forward in decontrolling telecom and decontrolling computers to a level that was unimaginable just a few years ago.

We discussed earlier the battle between Secretary of Commerce Mosbacher and Secretary of Defense Cheney over the 286 computer that I think operates at one or two CTP's and we have now decontrolled computers up to the range around 7,000.

We obviously have a long way to go and while reorganization may help that in some ways, at the end of the day, the battles are the Defense Department versus the Commerce Department in many of these issues or State and Defense joining in a battle against the Commerce Department.

Do you think it makes sense for the United States to do away with the Commerce Department and give way to that Cabinet-level position, Mr. Jordan, Mr. Armstrong, Dr. Stern?

Mr. ARMSTRONG. I will answer absolutely not. If there is a restructuring, a redefinition, a better idea, let's hear it. Let's all go to work on it.

Look, you know when history judges this Congress and this generation—all of this, whether we are in industry or government, we are restructuring ourselves to adapt to these market realities.

Mike and I are doing everything we can to cut costs, to cut bureaucracy, to be competitive. What we are working on is a bottom line, while concurrently we are working on the top line to grow our businesses, to increase shareholder value, and provide jobs.

If this Congress simply focuses on the bottom line and does not focus on the top line of this country—growth—then I think history will judge us harshly and I think our children are going to be a lot worse off.

So focusing on cutting the Commerce Department or reducing the financing for export growth, to me does not make any sense. Balancing the budget makes a lot of sense. Restructuring government makes a lot of sense. Re-sizing and reorganization for market realities makes a lot of sense, but if we also do not do the right things to promote growth, then we have found the enemy and, as Pogo says, that is us.

Mr. GEJDENSON. Mr. Jordan.

Mr. JORDAN. I think the functions that Dr. Stern outlined are important ones for American trade policy. Mike Armstrong is right.

The government cannot just advocate, because we live in a competitive world and we need the resources and the advocacy in competition, especially with our European and Japanese friends.

Today, the resources being deployed to support major exports by the United States versus the French, for example, who are probably the most aggressive in the international economy, are relatively meager.

We need both the advocacy and the organization and the export promotion resources and export finance resources that are there today. Actually, we need more, because the American industry is by far the most competitive.

We used to look at ourselves versus the Japanese. I think all of the studies would tell you that across the board American industry is the most competitive from a cost, technology and a quality standpoint.

We deal with competitive economies where the governments and industry are very closely tied together. Ours is a different political system. We are not the French. We are not the Japanese.

The government, we think, has a legitimate role to support that process and we would hope that that would continue and the leadership would continue and be strengthened, in fact.

However you choose to organize that, where it comes out, I mean all of the points that Paula Stern was making are very good. We need those functions.

Mr. GEJDENSON. Just to quantify what you are saying, in 1994, the United States spent 3 cents of every $1,000 GDP on export promotion. Japan spent 12 cents compared to our 3 cents. France

spent 18 cents compared to our 3 cents. UK spent 25 cents compared to our 3 cents.

I think at least people like myself and Congress would be happy to say to industry, you should not be here for any assistance. Go off and do it on your own, if that was the playing field we were playing on.

That certainly ought to be a goal that we try to reach internationally. These subsidies do not make a lot of sense for any of us.

There ought to be commercial deals—and government financing just creates more confusion, unless you are trying to do some general assistance program to poor countries, but that is not the playing field we play on.

If we pull out, it simply means that Americans are going to lose those opportunities for future contracts as well.

Dr. Stern.

Dr. STERN. I think it is very clear from my testimony that it is important that we have a Cabinet-level department. I am focusing on economics, industry, and trade. I think mostly we have to make sure that we have a healthy economy.

Trade is an important component of that economy and then trade has five basic functions, which I do not think can be devolved to the States, if you will. They have to be done by the Federal Government.

Trade promotion, as you mentioned; trade financing, as was mentioned; trade negotiation; trade intelligence gathering and analysis; and enforcement of the trade laws relating to both imports and exports. These are all functions that have to be done and they can be done better. If we try to pretend that the rest of the world is going to compete and we are not going to have a commercial policy that will enhance our overall national economy, I think it would be a recipe for disaster.

Reducing the department status of this consolidated structure that I am describing, I think it would send a terrible signal to the world that the United States does not put the same kind of emphasis as we would on the Department of Agriculture or the Department of Labor, and we would no longer have what is, I think, the essential commercial thrust that will maintain our technological advances and our leadership around the world.

Mr. GEJDENSON. Let me close with a plea to particularly Mr. Armstrong and to Mr. Jordan, Mr. Jordan my sense is that you have a facility that has caught our chairman's attention in his State and you have a significant advocate there.

I suggest you look at my eastern half of Connecticut for facilities. We are always looking for jobs there, but wherever you are, we need your help in educating our colleagues and to my chairman's comments at the beginning, frankly more than a bipartisan conference here, we need you to do your work back home.

I think a lot of the public is focused on lobbyists and campaign finances and what have you. The focus is information.

I think frankly a lot of our colleagues do not have the level of information, forget about Benjamin Franklin and Thomas Jefferson, on these very complex issues.

As the former chairman of this committee, time and time again I was frustrated by debates on the floor that were based on myths. Myths that somehow the United States had unilateral control of this information, and that we were processing these export licenses in a timely manner. What you need to do is go out and get your workers and get your management and find that appointment with Members of Congress back in the district.

My sense is at least Hughes has some facility in California. That is a pretty broad reach. We have some problems in California, from Democrats and Republicans alike and it should not be a hostile dialog, but just to sit down and be able to explain what those issues are would be very helpful for us.

Nobody can get a colleague's attention, with exception of maybe the CBS evening news, better than a local employee and a local manager sitting down with their Congressman or Congresswoman in their office, explaining what is going on in the world, vis-a-vis their company, their jobs and the opportunities they are looking for.

It is not enough just to be right on these issues. You may be in the right place in the right time. You have the right product, but if you have not convinced a majority of the Congress, I have struggled through I do not know how many years when I was chairman and we never got an export administration act through.

We had Presidents that opposed it; we had the State Department sabotage the last one, because they felt they were losing control. The Defense Department—we would see the kind of games that went on here interfere with our colleagues, when it came time for them to make decisions.

Exports would occur with full knowledge of the Defense Department, in the case of one situation to Iraq and later during the debate, the Defense Department would feint that it knew nothing of this export. That they had never seen that export license.

That is why they needed more control on dual-use items and things of that nature, when that clearly was not the case. They had that information.

We really desperately need your help to educate our colleagues and I think even then we have a difficult fight, but it is obviously a fight we would do better in if you did that.

Dr. STERN. May I just mention a piece of information in this education fight that you might be interested in knowing about?

The President's Advisory Committee on Trade Policy and Negotiations (ACTPN) is a group that I sit on. I am the chair of a subcommittee on reducing export restrictions. We are going beyond what is the "traditional" advice on trade policy to the President—traditional meaning open markets, GATT, NAFTA, World Trade organization.

We are preparing now a paper which we are hoping will get the approval of the entire action, which will help move opinion, both in the Administration as well as in Congress.

Mr. GEJDENSON. Let me just say and I do not want to extend my time any further, but say that I can remember spending a year and a half of my staff's time, as much as mine, trying to get a machine that cost $2 or $3 million exported because it had a 386 chip in it,

when you could get 386 chips in Radio Shacks around the world, including Beijing.

I have had now I think almost 4 years, maybe longer, of discussions on encryption starting with the Clipper chip insanity and going through today where decent encryption is absolutely fundamental to moving the economy forward on the worldwide Web and we still do not have a good resolution of that problem. So we desperately need help in this. Thank you very much. Thank you, Mr. Chairman.

Mr. ROTH. Thank you. I was hoping that Mr. Sam Brownback, who was with us, could stay, because he is one of the leading movers in eliminating the Commerce Department. I thought it would be a good debate there.

We will move on to Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I appreciate your comments about the French nuclear testing program that we are now faced with in the Pacific.

I appreciate your concern on the fact that the French have exploded over 165 nuclear bombs in this one atoll alone, expecting another additional five nuclear bomb explosions for the next 6 months, having the equivalence of about ten Chernobyl's and maybe my good friend, Mr. Jordan, can help me on the technology of nuclear capabilities of these explosions.

I am puzzled. We outlawed germ warfare, biological chemical warfare, but not nuclear explosions. It is puzzling.

I want to say to Mr. Armstrong and Mr. Jordan and Dr. Stern that you would not find greater advocates and I admire and respect very much in this committee as the Chairman and Mr. Gejdenson from Connecticut, as probably perhaps the strongest advocates of the very things that you have expressed this morning and the concerns that you have from our corporate community.

I want to say that I am very, very pleased to hear from two of our most outstanding leaders in the corporate community, understanding of the nuances and the problems that corporate America faces and certainly Dr. Stern, we welcome you for your presence here.

I wanted to share with you and I suppose these are some of the things that you have heard over and over again about the fact that on a competitive basis, our competition in foreign countries, because their corporations are subsidized heavily by their governments.

It somewhat goes against the grain of our basic philosophy about free enterprise and the private sector development without government subsidies.

Of course the counter-argument to that, as I have heard otherwise, is that we do have a subsidized form of assistance that we get from our government. They call it contracting. With a $240 billion military budget, I am sure it does not go to every soldier, but corporate America also benefits indirectly from the contracts that it receives.

Aside from that, I wanted your opinions on the very concerns that Mr. Gejdenson and Mr. Roth had expressed. The concern that I have, how can we maintain the American labor force from losing their jobs, while corporate America is moving factories and busi-

nesses outside of our country, because of cheaper labor costs and perhaps even better incentives that these foreign governments give major American corporations to operate outside of our country, at the expense of the American worker.

I wanted to ask your opinions. How can we balance this, what I consider to be an inequity, that we do this in the sense that and I would be happy to hear from you and the fact that we have very serious problems with child labor, where by implications some of our major corporations operate, maybe not directly, but the fact that a lot of these countries hire children, working 16 to 17 hours a day.

Some making 25 cents an hour on a Nike shoe that costs 25 cents in the labor force in a foreign country. By the time it gets to our markets here, it is $125.

I want to ask you in your honest opinion, how can we balance this so that I want a strong corporate America, but at the same time, I want a strong work force America so that we work together, rather than always being on somewhat of an adversarial process rather than working together? Where the American worker and the American corporate corporations could benefit mutually.

The concern I have is that how can we prevent companies (and I am sure that my good friend from Wisconsin and from Connecticut would love the transfer of some of Westinghouse operations maybe to Connecticut, more so than Wisconsin, I do not know), from doing it outside of our country I think is the concern that I have.

I would love to hear from you. How can we balance that? Maybe this is the very thing that the Speaker and even the Democratic leadership would like to work out with corporate America.

How can we do it so that the American working man does not become the sacrificial lamb at the expense of corporate profits that could be reaped because of these better incentives that are given to them in foreign countries?

Mr. JORDAN. Let me jump in on that. The issues many corporations, ourselves included, have gone through restructurings and downsizes, the most significant have been in the defense area, I would say, where the decline of the U.S. procurement program from $90 billion to $45 billion has meant that the defense industry, in fact has downsized.

Many companies like Hughes, like Westinghouse, have sought international markets, sought to become competitive, for example, in the areas of air traffic control and where we are competitors, friendly competitors but still competitors, with the French and the Italians and the Germans and the English.

I think the United States does not really ask for subsidies, except for export finance. I mean we compete. Both Hughes and ourselves compete against Thompson, which is a large electronics manufacturer in France—a State-owned company that, to my knowledge, has never made any money ever. The government supports it.

That is our competition, but we can beat Thompson on cost. We can beat them on quality and we can certainly beat them on technology, but we cannot always beat them on the financial package that France, Inc. comes to the party with.

So, the one area we would say that to be competitive with them, is export finance. I mean that clearly is a discriminator that is very difficult to offset.

In terms of incentives, much of our industry that is the high tech side of the industries, remains very strongly export-driven, but there are circumstances where to stake out a claim or a position in a large market, you have to shift some production, because the government says, we are going to spend $100 billion, we would like some of this to flow to our people and not just be a hard currency drain for the country, whether it is China or Indonesia, Thailand or so forth.

So some accommodations, if we just stiff them and say no, we are not going to do that, then you are out of the picture. So you have to learn how to balance what we call a low-value-added manufacturer in some of those places against high-value manufacture in the United States.

I think that is one of the issues facing our country, that there will continue to be very strong jobs and job creation in the United States, but it is going to have a strong technological component.

Mr. FALEOMAVAEGA. Mr. Jordan, this is where I am concerned. I want Westinghouse and Hughes Corporation to go out and reap the harvest of whatever that we can export.

Even if you have to relocate, relocate, but how can we maintain the working people here in our own country from being unemployed in the process?

Mr. JORDAN. What we are trying to do is to build our total revenue, maybe part of it has to be manufactured or co-manufactured, for example, in China.

Westinghouse won last year 12 out of the 12 major power plant projects that were awarded. We won them because we had a long-term position in China. We had licensed our technology to indigenous manufacturers 15 years ago.

We were taking an equity position, but we were able, through our relationships, to have not only a domestic manufacturing capability in China, but also to sell them a billion and a half dollars worth of product, sourced from outside China, mainly from the United States.

I think you have to look at the total context of our position in China. Because we are willing to produce in both countries, we actually increased our factory load in the United States. I think that is the kind of strategic relationship.

No one really likes to downsize their company. When you have a lot of long-time, loyal workers, you do not like to do that. You hate to do it.

Therefore, we try to pull out all the stops to build our total enterprise and to continue to maintain and build U.S. employment, not just because we are Americans and nationalistic and altruistic, because we know our work forces are very good, they are very well trained and they are very, very productive at this point.

That was not always the case. Fifteen, 20 years ago, we were not always as productive. I think today U.S.——

Mr. FALEOMAVAEGA. I am sorry. I think my time is up and I did not mean to prolong this, but our country probably educates more foreign students than any country in the world.

We enroll over half a million foreign students in our colleges and universities. What happens? They go back for the same quality education they get, they get paid maybe $3 an hour, the same American worker, they get paid $16 an hour.

So what happens? Our companies go there, because of the differential and it is quite obvious the profit is going to be greater in that foreign country than if we were to maintain the American worker at that same level of employment.

This is where I get a little fuzzy, Mr. Chairman and I am sorry I did not mean to take the——

Mr. ROTH. Those are very important questions to be answered, because I think that it is a manifestation of a deeper problem that we have.

Mr. ARMSTRONG. Mr. Chairman, if you will permit a little more time on that issue, I would just make three points.

First is that we have probably lost more jobs due to our cold war victory than any other cause in the last 10 years. We have gone from 82,000 to less than 39,000 and we have thousands ahead of us, and it is very unpleasant, as Mr. Jordan indicates.

Second, none of us, none of us, condone either unfair labor practices or business practices abroad. We stand by the Foreign Corrupt Practices Act and we do not permit trading with companies that use prison labor or child labor. You can count on us for that, because we are all Americans.

Third, export of jobs versus the export of products. We are going to have to invest in two things—in plant and equipment and in skills in order to expand the growth of our companies. That investment in the global economy will never only be in the United States.

What that means is that as we invest globally, it is going to mean more total jobs for the United States. The way that we keep our labor force and our company competitive is not by trying to keep our investments down globally. It is by investing in our people to keep their skills up locally.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. Thank you.

Mr. ROTH. Thank you for those excellent questions and the comments. You see I think that Members of Congress have somewhat of a problem in the sense that the world we are operating in is not exactly the world that you are operating in.

This morning I received a call from a company back in Green Bay that is laying off 200 people. That is a lot of people for one community. If it were to only happen once, that would be one thing, but it happens all the time.

He has a problem and I have a problem. Companies today are going all over the world creating jobs and back a number of years ago we could tie you down. You had a steel mill. You could not move that steel mill.

Unfortunately, nowadays you take your computers and fly off to China. There is nothing that we can do about it. So, it is somewhat frustrating in that sense and I guess that is what the Congressman is basically saying.

Mr. FALEOMAVAEGA. I was going to say to the Chairman and to our distinguished panel, it seems to me the advocacy of this administration is "trade policy is the same as foreign policy".

I do not know what your thinking is on that, because when it comes, in effect, there are so many contradictory policies going on, when it would be in our best security interest, foreign policy interest, versus a trade policy interest, that will be totally against the interest of our corporate community and that is sad. But this is what happens here all the time.

I respectfully disagree with my good friend, the Chairman, about committing major surgery with the Commerce Department and I wanted to ask for your comments, whether it is really a matter of personality and leadership on who takes the helm of the Commerce Department, rather than the structure.

If there really have been too many bureaucratic roles and I am sure that all of you have experienced having to deal with this important department, but do you think that disassembling and redoing or terminating the Commerce Department, will it really do a much greater service to the needs of our corporate community or does it really just need some better, more effective procedural alignings, rather than committing it to major surgery?

Mr. ARMSTRONG. Let me represent my company, as well as I believe I am permitted since it is public, represent the Chairman's export council on this.

We do not believe that the elimination of the Commerce Department is going to advance global commerce for the United States. Plain and simple.

Most of us are Republicans and we think we probably have the best Commerce Secretary that we have seen over the course of multiple Democratic and Republican Administrations.

This guy, Secretary Brown, gets out and works on closing business and he gets a lot of raps that he shows up for ceremonies, and I bet you he shows up for ceremonies. I show up for ceremonies. I bet you that you show up for ceremonies, but he is also behind the scenes and he is making introductions and he is networking and picking up the phone and he is getting us market access. So, if it is a personality, it is a bad mis-judgment.

Mr. JORDAN. Could I make just one minor comment?

Mr. FALEOMAVAEGA. I am sorry, Mr. Chairman.

Mr. ROTH. We will let Mr. Jordan talk.

Mr. JORDAN. Because I think the people have to recognize that there is a difference that we have in the American trade system now, sort of a good cop, bad cop system and USTR is the bad cop.

We would like to make sure we have a good cop who is going in afterwards and schmoozing at the governmental level to try to help business get it done.

So I mean I think people have to recognize the world at large does not look on the USTR as being a friendly advocate of American business. It has taken a pretty tough stance and in many cases quite rightly so, others you would challenge. But we need both functions.

Mr. ROTH. The Commerce Department has not been eliminated yet, but it is in the works.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Mr. ROTH. Let me ask Dr. Stern. You are a fellow analyst here. I noticed when I was reading their testimony last night they were

not strong proponents of unilateral U.S. controls. In fact, quite to the contrary.

How do you feel about it?

Dr. STERN. I feel very strongly that unilateral controls should be avoided, except in absolute dire emergencies.

Obviously if we are going to try to use trade as leverage on another country, either as a carrot or as a stick—you are asking now about sanctions so that is a stick—you are always going to be more effective if you have a multilateral system.

If there is availability for a particular product or service that has been embargoed and cannot be shipped from the United States, and the target country can get the product, say from France or somewhere else, the unilateral policy, in effect, shoots the U.S. producer in the foot but it has not changed the behavior of the target country, because that target country can source elsewhere. So, it is a very self-destructive approach. Unilateral sanctions should be avoided.

Mr. ROTH. Mike Armstrong, you saw these charts that Mr. Jordan had up here. They are pretty compelling. I thought they really told the story quite well. I was going to ask you what you think and do they square with your experiences on unilateral control and sanctions.

Mr. ARMSTRONG. They sure do. I think Mr. Jordan and I are of singular opinion and voice. I think the facts support us.

I think the suggestion that we could all do more at home with particularly some of the new Congresspeople is a good one. We will take that on, just as I respect that you have accepted our suggestion as well to see if we cannot sponsor a conference followed by hearings.

I think we have an education job to do, but in answer to your question, Mr. Chairman, I could not agree more with what Mr. Jordan has brought forward.

Mr. ROTH. Mr. Jordan, the Foreign Corrupt Practices Act was brought up before. I know we had Secretary Brown before us and I think he has been doing a good job as Secretary of Commerce.

Secretary Brown had all kinds of statistics showing us we are losing all kinds of jobs because of the Foreign Corrupt Practices Act. How do you feel about it? No one is going to come up and say we should do away with the Foreign Corrupt Practices Act. The problem is that the Foreign Corrupt Practices Act has not been explained. People do not know what this is all about and Members of Congress do not know what is going on overseas.

Give me some of your thinking on this, if any.

Mr. JORDAN. Well, the Foreign Corrupt Practices Act, in fact, on one hand it can be a restriction and especially there are a lot of the regulations and internal investigations and things we do as a corporation to stay on the right side of that. They are a little bit onerous.

On the other hand, I think it is the right thing to do. I would say probably 15 to 20 percent of the time you are really up against a problem.

Mr. ROTH. Have you lost jobs? Have you lost contracts overseas because of it?

Mr. JORDAN. We believe we have, but we cannot prove anything. We believe we have and maybe it is 10 to 15 percent of the time.

I support it for two reasons. One, you just take yourself off the playing field. People just do not ask anymore or do not even hint and that saves us a lot of money.

But I see the world, especially the industrialized world, moving in the American direction. I think the governments, the European community in fact, are recognizing the distortions that come about through that and would like to figure out a way to do it themselves.

They have not quite gotten the political will to do it, but one of the great gatherings of the world is the World Economic Forum in Davos and last year they had one of their Sundays, which is their sort of major policy day, devoted to corruption.

It is a major issue that people are recognizing. Developing countries are recognizing the potential for corruption and the corruption that distorts their very limited economic resources.

If something goes to this guy because he paid somebody else off and they paid $10 million or $50 million too much because of payoffs. I think the world is becoming more aware of the distortions and the penalties of corruption. It does not mean they solved the problem.

I would certainly not want to eliminate the Foreign Corrupt Practices Act personally. I think we just say, do not even talk to me, if that is what it takes, we are out of here and I believe that.

I think, yes, we do lose some, but it is not as much, in 25 percent of the situations I will say we lost it because of that. I would say yes, it is really more like 10 to 15 percent, because that is an excuse. I certainly would not want to see us revise that, except to make the Administration a little bit easier.

Mr. ROTH. I appreciate your comments and I appreciate the testimony from our three excellent witnesses we had here this morning.

I cannot remember when we had better testimony than we have had today. I want to make sure this testimony gets to other Members of Congress, too.

On another note, I am the congressional representative to the United Nations and a few Sundays ago we had the world leaders at the United Nations.

While I was there, someone told me to look at all of the countries. I thought about how the futurists tell us that in 100 years we are going to have 1,000 countries in the United Nations. It may not be too long before one of you will come to the United Nations seeking membership. If you think about it, you are the same size as the Dominican Republic or Luxembourg.

Mr. ARMSTRONG. You can take the lead on that.

Mr. JORDAN. Mr. Armstrong has just given me the opportunity to go first.

Mr. ROTH. I also want to point out that you represent some 84,000 workers.

All three of you have the ability to corral 30 Congressmen and focus on an issue. With 30 Congressmen, you can get anything you want through Congress, as long as they are kept focused on your goal. You can see the tremendous amount of power you have here in the Congress.

We have talked before about three bold new ideas. I am going to follow through. I will talk to the right people about it and see what we can do about getting it back on track.

I hope that we can continue this dialog. I think that we are moving into a world where Congress does not dictate by itself.

In this information age, we need more interaction on this legislation, because quite frankly, we are not focused enough.

We do not know how this legislation really affects industry. We need to ensure that decisions from Congress are made with all of these variables in mind.

So, I thank you very much for your testimony this morning. It was nice to have you.

Mr. ARMSTRONG. Thank you.

Mr. JORDAN. Thank you, Mr. Chairman.

Dr. STERN. Thank you.

[Whereupon, at 11:51 a.m., the Subcommittee was adjourned.]

APPENDIX

Committee on International Relations

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

OPENING STATEMENT BY CHAIRMAN ROTH
HEARING ON STRENGTHENING U.S. EXPORT COMPETITIVENESS
November 8, 1995

Today's hearing is a special occasion. I am delighted to welcome three very distinguished witnesses, each of whom is a major player in the world of trade.

Let me thank them for being here today to discuss a vitally important question: What steps must our country take to remain competitive in global markets?

This hearing is the latest in our series on the competitive position of U.S. industries in the new world of global markets. Although the U.S. is currently the top exporting nation, our leadership is under assault. Our competitors in Europe and Asia are pursuing aggressive strategies to take markets away from even the best of American companies, such as Westinghouse and Hughes.

Simply put, we need to fight back, or we will see a steady erosion of our exports, our national income, our economic growth and our prosperity.
All of these are linked together. We have to wake up, because the most important battles among nations are no longer military, they are economic. In today's world, and tomorrow's, our national security depends more on our economic strength than on military might.

Frankly, too many in Congress and the Executive Branch have been lulled into complacency, even though some trade experts like Paula Stern are doing all they can to raise the alarm. Meanwhile, executives like Mike Jordan and Mike Armstrong are locked in a furious struggle for market share and growth.

While other governments work hand in glove with their industrial and financial companies, too often the U.S. government helps with one hand and throws down obstacles with the other. Some people in Washington still believe that trade policy can be subordinated to foreign policy. But in today's world, it is the other way around: economics dictates the relations among nations.

Today, we will examine our competitive position and discuss how we can remove some of the obstacles to U.S. export growth. I can't think of three better witnesses to lead us in that discussion.

TESTIMONY PREPARED FOR C. MICHAEL ARMSTRONG
CHAIRMAN AND CEO
HUGHES ELECTRONICS
ROTH SUBCOMMITTEE HEARING
WASHINGTON, D.C.
NOVEMBER 8, 1995

Mr. Chairman / Members of the Committee: Thank you for the opportunity to testify today. Less than 5 months ago, I had the honor of appearing before this panel -- and unfortunately for both of us, little has changed for American companies. While we still face enormous competition from foreign competitors and seek exports as an avenue for growth and jobs, we still see too many government policies and practices, as an export inhibitor. In today's global market government can and should be an important export enabler.

But if all of that remains the same, there are conditions that have changed since I last sat at this table: The urgency of the situation has increased. Barriers around the world are coming down, but global competition with foreign government support is tougher than ever. With continuing Cold War policies on our government books, our ability to build market share and sustain technology leadership is increasingly at risk.

While I appreciate that the Clinton Administration and the Congress have set aside partisan differences to pass NAFTA and GATT, the failure to change our policies on export control could undo much that has been done by this strong government leadership.

This committee is well aware of the role that exports -- particularly high-technology exports -- play in the growth of the American economy. What I'd like to underline today is the changes we've witnessed in the global economy -- and their implications for several of the guiding assumptions from the old, Cold War era.

Today, our country's R&D is no longer defense driven. With our current Cold War policies, and half the defense budget, the balance has shifted -- irreversibly, to commercial R&D. It is now the commercial sector that is feeding important advances into defense systems.

This change requires an inversion of the Cold War credo that national security often required a conscious de-valuing of economic security -- for instance, limiting trade out of concerns for technology transfer. Today, if commercial R&D is integral to defense capability -- limiting commercial technology's advance could have an adverse affect on U.S. defense industrial capability. This is an argument that simply understands that technology travels. And if American companies are not at the forefront of markets, they will not over time be at the forefront of technology. And thus we will suffer both in our commerce and in our military.

This dual use demand on commercial R&D puts pressure not only on companies to keep up -- but for government policy to keep pace. Take the radical reduction in cycle-time and its impact on competitiveness.

In the 1970s, the lifespan of many technology products lasted about 7 years. In the space business, Hughes used to take 2-3 years to build and launch 4 to 5 satellites a year. Now we build satellites with 3 times the power in 18 months, and will launch 15 satellites this year alone. And while we serve a more global market, a more competitive market, it is also a more

difficult market with a U.S. government that maintains Cold War commodity jurisdiction, an outdated munitions list, unrealistic licensing cycle time, uses trade as a primary tool of foreign policy, and has uncompetitive processes that do not support an export society.

The contest between technology and bureaucracy is a lopsided one. Orwell had it upside down. Technology isn't a tool of tyranny. Technology is less likely to limit -- than liberate. Technology outstrips our ability to contain and quarantine its advance. So what bureaucracy does is, really, quite predictable: It slows technology in order to control technology.

But not without cost. As U.S. companies struggle against red tape -- companies from other countries win market advantage. And first-to-market with a customer base and loyalties, is hard to break. As a consequence, American companies often lose market share -- and the revenue growth that finances the next generation of R&D. And that ladies and gentlemen is the beginning of the end of American competitiveness.

Now let's get to what can we do to reform policy -- to create a positive environment for technology and export growth. Let me begin with a general observation and then several specific action items:

On the national level: We need a rational, understandable export system -- a consistent, reasonably simple, coherent way to <u>make</u> export policy and <u>adapt</u> to market realities. In contrast to the present Tower of Babel that results from the diffusion of export policy authority across the federal bureaucracy, we need the equivalent of an" export operating system". The complexity of Washington on trade policy has outstripped by orders of magnitude the pace of technology and the change inherent in the market system. If this Congress is to liberate us from the bounds of

government, please give us a system that accommodates change, rather than defies it; that is usable, rather than useless; that is adaptable rather than entrenched.

Sometimes without a system, of course, selective positive things can happen -- the Clinton Administration's recent easing of export controls on computer capabilities, for instance. But these exceptions prove the rule. Today, any link in the chain -- any player in export policy from agency to department -- can exercise a de facto "veto" power simply by remaining inactive. And bureaucratic inertia -- the power of a government body at rest to remain at rest -- is a potent force in the policy-making arena.

Beyond the need for a new "export operating system," let me provide a snapshot of what many of us would like to see from Washington:

First, we need a new Export Administration Act -- revised, revamped and export-driven. One that comes in from the Cold War -- reconciles government policy to the new realities of the global economy. Now, no one denies that national security concerns are serious matters. But the old system fails on both counts: It cripples American companies -- and it fails to control the right technology. Controls that bind the U. S. only, leave other industrial nations -- our allies -- an open field. The result: The countries we mean to punish often get the technology from our competitors anyway -- and unilateral sanctions seldom change errant behavior. That's simply counterproductive -- and it's costing this country jobs and GDP. // We need to more vigorously pursue multilateral action if sanctions are required. And we need at a minimum, to have a process to work with the industry affected that stops us from maximizing American layoffs as our punishment for Third World behavior.

Second, as I mentioned, we need an end to the practice that leaves commercial technologies on the Munitions List. Communications satellites are my company's immediate concern -- but ours is by no means the only industry caught in the Munitions net. Commercial aircraft engines -- the encryption technology in the telephone systems I talked about when I came before this committee last June: These and other technologies are listed as munitions and therefore can be excluded from export -- while other countries pick up the business. Anomalies abound: Right now, U.S. aircraft (Boeing's 747) are routinely approved for export and delivered to foreign customers with all technology intact, while communications satellites with less technology content have previously been excluded from export. This is ridiculous as satellites are launched into orbit and never in any way "delivered" to a foreign customer or country. Again, the U.S..-- not the target country -- is the one that pays the price, in lost jobs and an eroding competitive position. // My plea is for the government to put commodity jurisdiction for commercial products under the Commerce Department and to take commercial technology off the Munitions List.

And third, American companies large and small, as we compete for business abroad, are often competing against foreign government competition. We need the advocacy and support of our own government. The idea that all our government needs to do is let the private enterprise system work unimpeded in international competition, is outdated and naive.

Much of what is bought in international markets, is foreign government controlled or influenced. France, Germany and Japan understand this very well. For example, within weeks after our M.T.C.R. sanctions on China had included commercial satellites, Helmut Kohl on a joint trip to Beijing with our competitor DASA, declared Germany did not use commercial trade in its foreign policy, and China promptly transferred a multi

billion dollar satellite agreement from Hughes to DASA. And with it, thousands of American jobs were lost.

In addition, let me state unequivocally that Ex-Im and OPIC financial support is not a form of foreign aid. It is often a necessity of being competitive in foreign markets. Foreign government financing is an international market reality. To withdraw or downsize our government's financial competitive support, is unilateral international economic suicide.

This Congress should be seriously debating how to expand exports, not how to eliminate the Commerce Department or reduce financial support. If you want your market system to work in this country, then get to work on expanding exports.

In concluding my introductory statement, I want to salute Congressman Roth and his colleagues on this committee for the insight and understanding they bring to this critical issue -- and for sharing my urgency that action is imperative. There are few policies today with more profound impact on our future, our standard of living, and our national security than the policies controlling export opportunities in this global economy.

Mr. Chairman, thank you once again for this opportunity. I stand ready to take your questions.

C. Michael Armstrong
Chairman of the Board
& Chief Executive Officer
Hughes Electronics Corporation

Corporate Communications
Hughes Electronics Corporation
P.O. Box 80028
Los Angeles, CA 90080-0028
(310) 568-6324

Biography — 8/95

C. Michael Armstrong is chairman of the board and chief executive officer of Hughes Electronics Corporation. With 80,000 employees and annual sales over $14 billion, Hughes Electronics is a world leader in the design and manufacture of advanced electronic systems for automotive, defense, space, communications and direct broadcast television.

Armstrong joined Hughes Electronics in 1992 and leads a management team that is diversifying the business while maintaining the company's leadership in defense electronics.

Armstrong came to Hughes Electronics after a successful career at International Business Machines Corporation, where he rose through the ranks from systems engineer to become senior vice president and chairman of the board of IBM World Trade Corporation. He also served as a member of IBM's management committee and its corporate management board.

Born October 18, 1938, in Detroit, Mich., Armstrong received his B.S. degree in business and economics from Miami University of Ohio in 1961, and completed the advanced management curriculum at Dartmouth Institute in 1976.

Active in supporting programs in higher education, Armstrong is a trustee of Johns Hopkins University, chairman of the advisory board of Johns Hopkins Medical School and a member of the CEO Board of Advisors of the Business School of USC.

Armstrong is chairman of the President's Export Council, the premier national advisory committee on international trade. He is a member of the Council on Foreign Relations, the National Security Telecommunications Advisory Committee and the Defense Policy Advisory Committee on Trade (DPACT).

Armstrong is a member of the board of directors of the Travelers Corporation and The Times Mirror Company, and the supervisory board of the Thyssen Bornemisza Group. He is a member of the GM President's Council, a director of the Conference Board and is a member of the board of directors of the Los Angeles World Affairs Council.

Armstrong is also involved in civic affairs. He is currently on the California Business Roundtable and chairman of Sabriya's Castle of Fun Foundation.

TESTIMONY OF MICHAEL JORDAN

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,

WESTINGHOUSE ELECTRIC CORPORATION

BEFORE THE HOUSE INTERNATIONAL RELATIONS COMMITTEE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

NOVEMBER 8, 1995

Thank you, Mr. Chairman, for the opportunity to testify before the subcommittee. I am Mike Jordan, Westinghouse Electric Corporation Chairman and CEO. I also serve as Chairman of the Export Administration Subcommittee of the President's Export Council, but I am speaking today for Westinghouse.

Now that the Cold War is over, U.S. international relations concerns have shifted from the Soviet threat to a wider range of smaller threats from "rogue" developing nations. As these nations seek to develop military capabilities, there is legitimate concern about both conventional and non-conventional weapons proliferation.

Many view economic sanctions against these nations as vastly preferable to military action in dealing with these nations. American trade sanctions are also becoming an attractive option for punishing other nations that violate international human rights norms.

There are three reasons economic sanctions are attractive. First, they are more politically achievable than military responses.

Second, many view them as having only small budgetary effects. And finally, now that the Cold War is over, an opposing superpower can no longer thwart them. On the surface, these are all good arguments.

Yet that is just on the surface. Dig deeper, and you find that the American economy pays dearly for the direct and indirect costs associated with unilateral economic sanctions. By losing sales, American firms get hurt. Yet the secondary effects -- the permanent loss of markets -- are far more damaging to our economic security.

In the time you have graciously given me today, I am going to give solid examples of the large direct and indirect costs of these sanctions. I will conclude with recommendations on how to design effective economic sanctions without seriously damaging the U.S. economy.

The Direct Costs of Unilateral Sanctions are Large

In 1992, the U.S. had unilateral economic sanctions in place in 10 countries. Some of these sanctions were clearly justified. Yet, because our allies did not agree with us, we paid a very high price for them (see chart 1, attached). We had an $11 billion shortfall in exports. In human terms, that shortfall cost us 220,000 American jobs.

Last year, the Council on Competitiveness documented the cost of eight specific business cases that underscore my point. Combined, American industry lost $6 billion in annual sales from these sanctions -- in the eight cases alone.

The unilateral U.S. embargo on nuclear power sales to China is a compelling example of the serious results of such sanctions. Here again, the goals of the embargo are laudable. We want to discourage Chinese exports of nuclear weapon technology and delivery systems. We also want to respond to human rights violations. Yet the U.S. is going it alone in prohibiting exports of civilian nuclear electric power technologies to China. And China is acting predictably, at our expense.

China is by far the world's largest market for new electric power plants. By 2020, China hopes to generate more than 20 percent of its power from nuclear plants. There is a good reason for this. China's main alternative is highly polluting coal plants. Those plants would negate much of the clean air gains Western countries have enjoyed.

U.S. sanctions won't go away until the President certifies to Congress that China is complying on non-proliferation issues and making progress on human and political rights. The embargo has sidelined U.S. firms (see chart 2, attached). Yet France, Russia and Canada are moving to serve this $55 billion market over the

next 25 years. China is already beginning to invest in plant and equipment that will last up to 50 years.

As time passes, it is ever more likely that China will adopt the European standard for the remainder of her nuclear power plants. If that happens, China's nuclear power program will go forward without benefit of U.S. nuclear safety standards -- the most advanced in the world.

Remember that China is the only major market that can support the U.S. commercial nuclear industry in the near- to mid-term. If American suppliers cannot participate in this market, they could go out of business. This could result in the gradual elimination of the trained personnel base that supports more than 100 nuclear power plants in this country and the U.S. Nuclear Navy program.

That's a telling example of the direct costs of unilateral sanctions. But what about the indirect costs? The Indirect Costs May be Larger.

There are two reasons why the stop - go effect of U.S. export sanctions contribute to a worldwide perception that America is an unreliable supplier:

First, countries or firms may fear losing access to critical U.S. products. When that happens, they may hedge by finding alternate

suppliers and altering their product designs to exclude U.S. parts and components.

Second, countries or firms wishing to do business with U.S.-sanctioned countries may fear the U.S. might blacklist them. They will predictably respond by ceasing to buy U.S. equipment.

Here are examples of both scenarios:

Foreign civil aircraft manufacturers have reduced their dependence on U.S. engines. Where Airbus once relied on U.S. engines only, two of the latest three Airbus aircraft now offer non-U.S. engines.

China and India, both directly affected by U.S. unilateral sanctions, are hedging against future sanctions that cut off U.S. civil aircraft exports. They are doing it by maintaining a significant share of Russian aircraft in their fleets.

U.S. unilateral export controls have led some European firms to avoid American products unless no substitute is available.

So these unilateral embargoes do hurt American industry, American workers and our economy. The extraterritorial reach of the 1982 Soviet pipeline embargo is a painful example. In this case, the U.S. expanded the embargo already in place by prohibiting American manufacturers from exporting turbines required to send gas

through the pipeline. The expansion included foreign subsidiaries of the firms and prohibited foreign firms from exporting U.S.-origin goods and technology.

Before U.S. policy expanded the embargo, one major American supplier's European licensees had contracted to supply turbines to the pipeline project. The turbines consisted of 50 percent value added by the licensee and 50 percent in components from the U.S.

Under the expanded embargo, the U.S. firm lost the value of the U.S. - made components. It also had to license production of the components in Europe so its licensees there could meet their export commitments and follow local laws. Many European governments had enacted blocking statutes to penalize their national firms if they complied with the U.S. sanction.

The end -- and unintentional -- result of the expanded embargo was to create major European competitors for the U.S. supplier. These competitors made rapid gains in both market share and technology. More broadly, it took American turbine equipment suppliers years to regain their competitive standing. Foreign competition gained an unearned boost in the international marketplace during this period, permanently destroying thousands of U.S. jobs.

Extraterritoriality and secondary boycotts are damaging in other

ways, too. Foreign governments retaliate against U.S.-origin products. Or they punish national firms that cooperate with the U.S. sanctions. For example, Canada, the U.K. and Germany have statutory authority to penalize national firms for honoring the U.S. sanction against Cuba.

I promised recommendations on how we can take steps to design economic sanctions that will greatly improve their effectiveness with minimum damage to our economy (see chart 3, attached). Here they are:

> We should avoid resorting to unilateral action in all types of trade controls and sanctions. Our country should impose unilateral sanctions only in cases of imminent national emergency and only if they are likely to work.
>
> Sanctions may work if other nations join in and cooperate. Yet without multinational support, U.S. companies will lose business and American workers will lose jobs to foreign competitors -- in every case.

Legislation and regulations for foreign policy sanctions should minimize extraterritoriality and reexport controls. National security controls use 25 percent de minimis for foreign incorporated parts and components. This same percentage should be

applied to multilateral sanctions instead of the current 10 percent.

We should adopt criteria from the administration's 1994 Export Administration Act Legislative Package for imposing and maintaining all trade controls. Moreover, we should add to these criteria the language in Rep. Roth's HR 361.

Here are the criteria:

1. Require the administration to commit to turning unilateral sanctions into multilateral ones within a reasonable time to assure their effectiveness.

2. Employ other forms of diplomacy -- especially on the incentive side -- to achieve goals, including economic aid or regional security assurances and access to international financing.

3. Require the Congressional Budget Office to "score" costs of proposed sanctions and consider requiring that they be the equivalent of "tax neutral."

4. Require industry consultation in the assessment of costs and potential regulations.

5. Consider a meaningful sunset for unilateral sanctions. Require a positive act of renewal for continuance. At present, sanctions tend to stay in effect because of concerns that lifting them would send the wrong signal.

6. Mandate a study on unilateral economic sanctions and trade controls: Perform an exhaustive analysis, as the International Trade Commission does, of the costs to the U.S. economy of unilateral economic sanctions against major recent targets. These targeted countries include Cuba, China, India, Iran, Libya, North Korea, Pakistan, Syria and Viet Nam. Include consideration of damage to U.S.industry competitiveness due to reexport controls and other features of U.S. implementing procedures. Evaluate and provide recommendations for any needed overhaul of the administration of sanctions programs. Find ways to simplify and reduce compliance requirement costs and make them more user friendly.

Mr. Chairman, this concludes my formal statement. I would be happy to answer any questions you or the other Committee members might have.

Biography

Michael H. Jordan

Chairman and Chief Executive Officer
Westinghouse Electric Corporation

Michael H. Jordan was elected chairman and chief executive officer of Westinghouse Electric Corporation, and a member of the Corporation's Board of Directors, on June 30, 1993.

Since September 1992 Mr. Jordan, 57, had been a partner with Clayton, Dubilier and Rice, Inc., a private investment firm based in New York City. Prior to that he served 18 years with PepsiCo, Inc., most recently as chairman of the company's International Foods and Beverages Division.

Mr. Jordan joined PepsiCo in 1974 as director of financial planning, and was named senior vice president of planning and development for PepsiCo in 1976. From 1977 to 1982 he served as senior vice president of manufacturing operations for the company's Frito-Lay Division.

Following one year as president of PepsiCo Foods International, Mr. Jordan became president and chief executive officer of Frito-Lay, Inc., in 1983. In 1985 he was named executive vice president and chief financial officer of PepsiCo, in addition to being named to the corporation's board of directors. Within two years he assumed the title of president of PepsiCo.

Mr. Jordan served as president and chief executive officer of PepsiCo Worldwide Foods from 1987 to 1991, and then as chairman of the PepsiCo International Foods and Beverages Division before joining Clayton, Dubilier and Rice.

Mr. Jordan's four-year tour of duty with the U.S. Navy began in 1960, and included a six-month assignment at the Bettis Atomic Power Laboratory, where he earned certification as a nuclear engineer. Following his military service, he was a consultant and principal with McKinsey and Company, a New York-based management consultant, from 1964 to 1974.

A 1957 graduate of Yale University with a bachelor's degree in chemical engineering, Mr. Jordan earned his master's degree in chemical engineering from Princeton University in 1959.

Mr. Jordan is a member of the board of directors of the United Negro College Fund. He serves on several corporate boards, including Rhone-Poulenc Rorer, Melville Corporation, Dell Computer Corporation and the Aetna Life and Casualty Company.

Mr. Jordan was born in Kansas City, Missouri. He and his wife, Kathryn, have two children and currently reside in Dallas, Texas.

TESTIMONY OF PAULA STERN

PRESIDENT, THE STERN GROUP INC.

BEFORE THE
INTERNATIONAL ECONOMIC POLICY AND TRADE
SUBCOMMITTEE OF THE HOUSE INTERNATIONAL
RELATIONS COMMITTEE

NOVEMBER 8, 1995

3314 Ross Place, NW
Washington, DC 20008
Tel: (202) 966-7894 Fax: (202) 966-7891

INTRODUCTION[1]

Today's Washington political environment offers a golden opportunity for reorganizing how the federal government crafts and implements trade and other international economic policies. It has created the conditions to (a) consolidate many of these now-scattered functions into a new, cabinet level U.S. Department of Economic, Industry, and Trade Affairs, and (b) to rationalize and downsize some of these functions to fit new budget realities.

Creating this new agency will sharpen the government's ability to pursue U.S. economic interests worldwide, and specifically its ability to develop and execute a trade policy that enhances competitiveness and boosts living standards. It would also restructure the U.S. international economic policy apparatus in ways that reflect trade's real importance in the broader economy, not partisan posturing, turf protection, special interest appeals, or bureaucratic inertia.

Although this new department would not bring every trade function of the federal government into one agency, its creation would reduce the current unhealthy level of fragmentation in international economic policy making. Today's policy structure encourages bureaucratic rivalries, duplication, lack of communication, and an undesirable separation between policy development and implementation. It also inhibits formulation of a trade policy that best represents U.S. national interests.

Determining the optimal organization for achieving such a policy requires first identifying where this national interest lies and which national objectives trade policy can influence.

This reorganization proposal reflects the fact that trade policy is a component -- albeit a very important one -- of National Economic Policy. The goal of trade policy should be to enhance the productivity and efficiency of the economy -- and thereby advance the well-being of the American people -- by optimizing the division of labor, economies of scale and the variety of goods and raw materials available to the U.S. economy.

Increasing exports is important because it increases the number of high-skilled, high-paying jobs available to American workers. (Export-related jobs rate higher on these measures than do those directed at the domestic market.) Exporting also enables imports -- and therefore efficiency -- to increase while

---

[1] Paula Stern is a former Chairwoman of the U.S. International Trade Commission and a Member of the President's Advisory Committee on Trade Policy and Negotiations (ACTPN). This testimony was written with Laura R. Chasen, trade analyst, with Washington/World Analysts.

maintaining rising living standards and avoiding greater debt. Thus, expanding two-way trade brings enormous benefits to the domestic economy.

This perspective leads to two basic premises that underlie the idea for a Department of Economic, Industry, and Trade Affairs. The first is that appropriate federal activities that facilitate trade by enhancing opportunities for U.S. products in foreign markets (i.e., export promotion) or by generating information that advances private sector participation in trade are vitally important. Yet most of the recent restructuring proposals put much greater emphasis on the more visible and adversarial activities of the Office of the U.S. Trade Representative -- in negotiating and in wielding Section 301 -- and on the pursuit of dumping and countervailing duty complaints by the Commerce Department's Bureau of Import Administration (I.A.). These exercises have an important and legitimate role, but they are not the totality of the government's trade operations, or even the biggest part.

The second premise underlying this plan is that officials responsible for formulating and implementing U.S. trade policy should have ready access to information about how their actions could affect all industries individually and the economy as a whole -- as well as input from economists who can help bring this broader perspective to bear on trade decisions.

This broader perspective should be institutionalized by ensuring that the new department reflect the close relationship between trade and the broader economy. This goal is particularly important because, of all policy areas, trade involves the largest number of inherently competing interests. There are competing domestic interests -- U.S. producers vs. U.S. consumers, U.S. producers of manufacturing inputs vs. U.S. producers of finished goods, and U.S. producers vs. U.S. exporters (who might face retaliation stemming from actions on behalf of domestic producers). There are competing international interests -- domestic producers vs. foreign producers, and the producers of one foreign country vs. those of another competing for the U.S. market. And there are competing intra-governmental interests -- U.S. commercial policy vs. U.S. foreign and international security policy. Each set of trade-offs has policy implications that a new trade structure could handle more effectively.

The reconstructed trade regime would be better able to view these competing interests objectively while enjoying credibility and a reputation for fairness domestically as well as internationally. Yet accomplishing this goal requires some degree of insulation from the special interest pleadings of individual industries and companies, from political/electoral pressures (emanating from both Capitol Hill and the White House), and from bureaucratic maneuvering.

Trade has five primary dimensions, and, the federal government has a vital role in all: trade promotion, trade financing, trade negotiation, trade intelligence gathering and analysis, and trade law enforcement relating to both imports and exports (i.e., export controls). These five are intimately connected

and must be effectively integrated in order to produce a coherent and effective trade strategy.

Today, however, the government's trade officials are often more effectively insulated from working with each other than from various forms of special interest and related political pressures. And the effects on trade policy can only be damaging. After all, distinctions among these five functions are not nearly as precise as the current bureaucratic structure implies. Trade financing inevitably is an adjunct of promotion. Trade negotiations and enforcement must be closely linked. And the negotiation of increased access to foreign markets is often a precondition of successful trade promotion, as is the enforcement of U.S. trade laws and an effective response to foreign violations of trade agreements. In general, government always works best when the policy, operational, and intelligence-gathering dimensions of any area of the bureaucracy are brought into a closer working relationship.

In the current debate several voices have been arguing that the Office of the U.S. Trade Representative (USTR) must be kept entirely separate from agencies engaged in trade promotion/advocacy and unfair trade investigations in order to avoid conflicts of interest. But under the present structure, these functions are already linked to some extent, and USTR is not the only negotiating agency. The Department of Commerce itself not only actively promotes U.S. exports but is heavily engaged in trade negotiations (as well as housing the Import Administration). In fact, many other government agencies have significant trade negotiating roles, including the Departments of State, Treasury, Transportation, and Agriculture -- all of which often serve as the lead agency in government-to-government talks on matters relating to areas under their jurisdiction. (Moreover, they often negotiate with their foreign counterparts, ministries of agriculture, finance, etc. -- not only with a unified economics and trade ministry.) The U.S. Department of Agriculture, for example, vigorously promotes and finances U.S. exports, yet also participates fully in international negotiations on agricultural trade.

Nonetheless, the foreign governments with which Washington negotiates usually combine these various trade functions -- including not only trade negotiations, promotion, and policy formulation, but also complaint investigation -- within single agencies, with no apparent conflict or loss of effectiveness. If anything, their less fragmented and atomized bureaucracies give them an advantage in pursuing their national economic interest.

At the same time, most of America's trading partners assign their top trade negotiators broader responsibilities beyond the trade portfolio. These cabinet-level officials generally oversee ministries that pair trade with industrial and/or economic affairs, again with no loss of effectiveness in defending their trade and economic interests.

There are, of course, trade functions that must maintain strict independence from policy concerns, for example, investigations of illegal trade practice. This restructuring plan would allow such independence to be

preserved for individual agencies within a larger cabinet department -- as currently is the case for the Import Administration within the Department of Commerce (DOC).

Despite growing calls for privatizing more government functions, the plan keeps most trade functions in the public sector. There are components of the Commerce Department that can be privatized or decentralized, but for most trade functions neither option is realistic. Negotiating with foreign governments and multilateral institutions, investigating foreign unfair practices, and enforcing U.S. trade law cannot be devolved to the states. With the exception of certain aspects of trade promotion and financing, none of these basic functions can be handed over to the private sector, either. Nor can the states' extensive trade promotion activities adequately replace efforts at the national level. Indeed, the states could not engage in effective trade promotion without the backup of a federal trade structure able to coordinate their various activities. The Commerce Department's International Trade Administration provides crucial assistance to state-initiated trade missions, providing them with the information they need to plan effectively and assisting them while abroad. Further, federal coordination is necessary to ensure that recipient countries are not overwhelmed with 50 visiting delegations at once, and that they understand that a disciplined, coherent national trade policy underlies the individual state efforts. Far from hindering the decentralization of trade promotion, a strong federal trade agency would enhance the ability of states to take on more responsibilities in this area.

The Structure

The centerpiece of this trade remodeling strategy is, therefore, a cabinet-level Department of Economic, Industry, and Trade Affairs. This new and comparatively small department would consist primarily of the existing Office of the U.S. Trade Representative and the economic and trade functions now located within the Commerce Department. It would also incorporate the Export-Import Bank, the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency, and the Small Business Administration's export assistance programs. The department would have primary responsibility for export promotion, trade negotiations, implementation of import and export controls, industry analysis, and economic data collection and analysis now carried out by the DOC's Bureau of Economic Analysis and Census Bureau, the Labor Department's Bureau of Labor Statistics, and the economic office of USTR.

The department would have two deputy secretaries:

(1) <u>A Deputy Secretary for Trade</u>. This official, who would hold ambassadorial rank, would have operational responsibility for trade negotiations, import administration, export promotion, and the administration of export controls. In essence, the current Office of the U.S. Trade Representative would be taken from the White House and joined to the trade functions of today's Commerce Department.

(2) A Deputy Secretary for Productivity and Economic and Industry Analysis. This offi .ₐl would oversee the economic data compilation and analysis functions currently residing at the Commerce and Labor departments, and industrial sector analysis. The Deputy Secretary would also be responsible for all technology-related and business development programs -- including those directed at small business -- that elected officials decide to retain as government activities.

When ministerial level negotiations are required in the areas of trade or other matters affecting the private sector, the department secretary would represent the United States. This is no small point. If the Commerce Department were simply abolished, the country would have no appropriate official to represent it at international meetings and negotiations concerning economic matters other than trade. America would have a labor secretary, an agriculture secretary, and a senior trade negotiator, but no counterpart to foreign economy and commerce ministers who look to the interests of their private sector business and industrial communities. This situation would not only be awkward, it would send a terrible signal about the priorities of the U.S. government.

DETAILS OF THE REORGANIZATION PLAN

The Office of the Deputy Secretary for Trade

In order to carry out the government's trade negotiating functions, the "elite," highly professional cast of the current USTR office would be preserved, as would its current structure. Moreover, a study should be made of the feasibility of creating a professional trade negotiating corps. Yet, the Deputy Secretary for Trade's attention would not be solely focused on trade negotiations. Rather, this official's responsibilities for trade promotion and trade compliance would help enhance the quality and prestige of these functions. Unlike other proposals currently under discussion, this set-up would not accord institutional primacy to the more adversarial trade activities.

The Deputy Secretary for Trade should be able to view objectively competing interests including intra-governmental interests that impinge on trade policy. Yet this kind of "honest broker" role is already played by the White House National Economic Council established at the onset of the Clinton administration. To avoid duplication, the Deputy Secretary for Trade would therefore not retain the USTR's current responsibility for objectively presenting to the president competing viewpoints on trade issues that arise within the government.

USTR currently depends heavily on the industry and country specialists of the DOC's International Trade Administration (ITA). The small USTR Office lacks the resources to perform the intensive information/intelligence gathering and analysis done at ITA, but the current bureaucratic separation is inefficient and counterproductive. It fosters resentment among ITA experts (who sometimes feel they "do the work but don't get the credit") as well as duplication of effort (USTR staff engage in some information collection that parallels ITA's efforts). But without ITA, USTR would not be able to carry out many of its basic activities. It depends on ITA for much of the data used in drawing up the annual *National Trade Estimates Report on Foreign Trade Barriers* (and therefore in determining which foreign trade practices to target for correction through government-initiated Section 301, Special 301, or Title VII cases). It uses ITA-generated information in determining whether to accept for investigation Section 301 complaints filed by U.S. industries. It depends on ITA for information about foreign and domestic industries when compiling target lists for retaliatory sanctions in unfair trade cases. And it depends on ITA for information and analysis regarding foreign-country practices and markets in all its foreign trade negotiations.

The International Trade Administration

All of ITA's current responsibilities are valuable and appropriate. Yet certain ITA functions can and -- given the current fiscal environment -- should be pared down or rationalized. The basic principles guiding this effort should be: (1) activities tailored to assist individual companies rather than provide generic information useful to broader interests should be eliminated; (2) activities benefiting specific industries should be made entirely self-financing; and (3) priority should be given to new technologies that can deliver information and services with fewer resources expended on offices and personnel. The process of reshaping the overall trade structure of the government is a good opportunity for making these changes.

ITA's several divisions (the U.S. & Foreign Commercial Service and the offices of International Economic Policy, Trade Development, and Import Administration) currently function in a highly integrated fashion. The Trade Development office contains the government specialists who understand the problems and export potential of various industrial sectors, while the International Economic Policy (IEP) office contains the country experts and analysts who possess the bulk of the federal government's knowledge about foreign trade practices and markets. Much of their data comes from the foreign component of the U.S. & Foreign Commercial Service (i.e., the Commerce Department experts based at U.S. embassies around the world), which gathers in-depth information on in-country issues and markets. IEP also receives and evaluates information generated elsewhere in the government and at multilateral institutions. This information, once analyzed, is used by IEP to support both its own negotiating activities and those carried out by USTR and other government agencies.

Despite the importance of Trade Development's intelligence functions, the opportunity of restructuring should be used to prune the staffs of industry offices that have become bloated over time

Without the input from the U.S. & Foreign Commercial Service, and without IEP's analysis of this information, America's ability to carry out effective trade negotiations would be crippled. U.S. negotiators would be sparring blind, with no back-up support, against foreign counterparts whose governments are devoting increasing resources to precisely this kind of intelligence work. The country experts at the State Department are no substitute; they follow different issues and they would be overburdened if expected to monitor the details of foreign trade laws and regulations, practices, and markets. (In fact, when they require such details for making the broader policy assessments assigned to them, they rely on ITA.)

The International Economic Policy office and the foreign arm of the U.S. & Foreign Commercial Service (US&FCS) also carry out other activities, beyond data collection and analysis, that are worthwhile, suitable for the federal government, and not replicable by the private sector. These involve programs

that bring together U.S. and foreign companies, and often foreign government representatives, to examine the feasibility of foreign projects with U.S. participation, to explore the possibilities of cooperation between U.S. and foreign firms, and to advise foreign companies and governments on reforming business practices and regulatory regimes. These activities open significant commercial opportunities to the private sector here, can produce great benefits for foreign governments, and reinforce the direction of reform that U.S. policy favors. But these are activities that cannot be carried out by the private sector alone: Without U.S. government involvement, foreign governments and companies would be suspicious of much business advice and U.S. companies would be less likely to participate in such programs and might even by enjoined by antitrust law for cooperating in such programs. These activities should be continued, though care must be taken to ensure that they are open to all interested U.S. parties and do not favor individual interests.

The domestic arm of the U.S. & Foreign Commercial Service performs a role different from that of the foreign arm, but also one proper for the federal government. Experts based in the United States use the information on foreign markets and country environments developed by the Service's foreign arm and IEP to help U.S. companies -- especially small and medium sized businesses -- assess the best targets for their export efforts. Export counselors are also available to advise companies on the best potential markets for their products and on government trade practices and regulations in those markets. This information and counseling -- provided that it is generic trade counseling not targeted to the needs of a specific company -- is free of charge, but companies can obtain for a fee more tailored services, e.g., market information more detailed than that normally assembled by the US&FCS or specific advice on exporting its product to a particular market.

The US&FCS has recently adopted a new approach for serving U.S. exporters through its U.S. Export Assistance Centers set up throughout the country. These centers now offer not only export counselors but also experts who can help companies apply for export financing assistance from the U.S. Export-Import Bank (Ex-Im) and the Small Business Administration (SBA). Current plans already involve paring down the number of these centers around the country.

Given the current fiscal environment, these operations should be consolidated and their resources deployed more flexibly to meet constantly changing market opportunities. Priority should be given to speeding up efforts to make information and even individual counseling available electronically. Yet, the concept of providing information on foreign markets and on export financing opportunities in the same "place" should be preserved, and will be aided by bringing Ex-Im and SBA into the same cabinet agency as ITA, as discussed in more detail below.

But should the functions performed by the domestic arm of the US&FCS be performed by the federal government? Washington's resources should not be

used to pursue activities that are and can be undertaken effectively by the private sector or activities whose benefits are directed to individual companies. For this reason, a study should be made of the user-fee system and tailored export counseling should be continued only if it can meet the test of preventing federal funds from aiding individual companies. (Such programs already largely meet this test, because the DOC provides most of its tailored programs on a cost-recovery basis.) Strict adherence to this objective is important, even though, unlike many other government programs attacked as "corporate welfare," this export counseling does not involve monetary subsidies or on-going assistance on which a company could become dependent. In fact, export counseling is most important not for major corporations -- which of course have their own lawyers, foreign-based personnel, and resources to hire private consultants -- but for small companies, especially those looking to take their first steps into exporting.

But the provision of "generic" assistance -- also of particular use to smaller businesses -- should be continued. In essence, the domestic arm of US&FCS is simply making available information that the government has developed for its own uses. As with other such government-generated information with no security or proprietary need for confidentiality, it should be publicly available. Since the information is accessible to all, no individual company would receive any competitive advantage -- such advantages flow only to companies smart enough to use the information well. As we noted in our introduction, anything that increases U.S. participation in international trade provides an overall benefit to the economy. Therefore, by facilitating exports by disseminating government-held information, the domestic arm of US&FCS is carrying out an appropriate government task.

There is a further, very practical reason for continuing these functions: in disputes over foreign market access, trading partners have been increasingly arguing that lack of penetration by U.S. products stems more from an inadequate U.S. commitment to exporting than from market barriers abroad. A U.S. government retreat from the comparatively meager (compared to other countries) and non-controversial (other countries have not targeted these export promotion programs as unfair) efforts it now makes in this area would lend fuel to charges that American society is simply not willing to work hard enough to succeed in foreign markets.

One export promotion program that has generated controversy, domestically and internationally, is the recently launched Trade Advocacy Program. Under this program, ITA selects companies based on their potential in a given market and provides high-level official assistance, including at the level of the Commerce Secretary, in closing deals abroad. Although high in profile, the program is low in cost. Nonetheless, this area of DOC activity does help selected individual companies at no cost to them. Nothing within the ITA structure was changed to support this program, and therefore it may be terminated without requiring any new changes. Whether it should be terminated is a policy decision that any administration should make for itself,

based on its philosophy about government's appropriate role. But arguments against the Trade Advocacy Program do not apply to ITA's ongoing activities -- which do not pick individual companies to help -- and should not be allowed to cloud an understanding of ITA's importance in overall U.S. trade policy.

Today, about 20 different federal agencies have some trade promotion function. Overall, the U.S. government trade promotion bureaucracy is fragmented and rife with inefficiencies, only some of which have been ameliorated by the Clinton administration's Trade Policy Coordinating Committee (TPCC). To the extent possible, these programs should be brought under the Deputy Secretary for Trade and their activities should be coordinated, when appropriate and useful, with those of the trade and investment financing assistance agencies discussed below. (In some cases, such as agricultural trade promotion activities, the resistance from the bureaucracy and the consumers of the service and their congressional allies may be so intense that waging a battle to bring the programs immediately into the new department may not be worth the scars. Once the department proves itself, however, such resistance may ebb.) In any event, the new department need not begin life as a fully developed entity; it can absorb other programs and offices in the future as the benefits of such restructuring become clear.

Perhaps as important as ending the fragmentation of trade promotion activities would be updating and modernizing the functioning of the offices involved. Current efforts to bring the information provision services -- which form a large part of trade promotion -- on-line with the most advanced telecommunications technologies should be accelerated and intensified. Accomplishing this goal would not only boost the overall quality of the services provided, it would also enable the rationalization of trade promotion field offices without sacrificing accessibility for the business community or coordination between federal and state export promotion efforts.

Beyond trade intelligence and promotion functions, the International Trade Administration as currently structured within the Commerce Department also contains the Import Administration (IA), which is responsible for determining whether and by what margin foreign imports, against which dumping and subsidy complaints have been filed by U.S. companies, have been unfairly priced or subsidized. The office is divided into an investigations section and a compliance section (which monitors the status of products already subject to dumping penalties or countervailing duties). Information gathered in the course of investigations and compliance monitoring is made available to other offices within ITA.

Import Administration staff are, essentially, accountants, with an expertise in calculating fair pricing; they are not country or industry specialists. Once into an investigation they carry out a mechanical study (governed by U.S. trade law) of the targeted industry and country. But before these calculations begin, they need to understand certain aspects of the practices and markets in question, and for this they depend on the experts in IEP and the foreign arm of US&FCS.

Clearly, it makes sense to keep the Import Administration within the same agency as the rest of ITA (this plan would maintain it as a separate office). But would it contaminate IA to locate it also organizationally close to the trade negotiating and policy-formulating functions? Some (particularly defenders of the status quo) charge that it would. Yet as currently structured, IA resides within a broader agency, ITA, that is itself heavily involved in trade negotiating and that supports the other parts of the bureaucracy that engage in negotiations. The Secretary of Commerce is also a major player in trade policy formulation. Despite its bureaucratic proximity to these other operations, IA has never been found failing to carry out the sort of independent investigations mandated by the law. Bringing it closer on the organizational chart to the Office of the U.S. Trade Representative should pose no more threat to its integrity than does its current position. At any rate, the extent to which IA's decisions might be wrongly colored by policy considerations or special interest pressures depends not on its place on the bureaucratic flow-chart but on the professionalism and integrity of its staff. Further protection comes from the regulations that provide for judicial review of IA's determinations.

The Trade and Investment Financing Agencies

Four other government agencies -- agencies not now connected to larger departments -- should also be brought into the Department of Economic, Industry, and Trade Affairs, under the Deputy Secretary for Trade. These are Ex-Im, the SBA's export assistance arm, the Trade & Development Agency (TDA), and OPIC. Each provides some form of financial assistance to U.S. companies seeking to export (in the case of the first three) or to invest abroad (the last two). OPIC, TDA, and the investment assistance program of the Agency for International Development were placed under an umbrella structure, the International Development Cooperation Agency (IDCA), in the early 1980s, yet several years later the TDA was spun off as a separate agency and the IDCA, which never acted as an effective coordinator, became an unfunded shell.

Grouping the programs aimed at facilitating foreign investment in the same broader government agency housing trade programs makes sense because of the intimate and synergistic link between trade and investment. Trade does, indeed, follow investment; the foreign subsidiaries and affiliates of U.S. companies are among the most important and aggressive buyers of U.S. exports. And as trade in services becomes an ever more significant component of U.S. exports, the line between trade and investment issues continues to blur. Since services are largely produced at the point of consumption, barriers to services exports frequently take the form of restrictions on investment, while efforts to promote services exports often must focus on opening opportunities and access for investment abroad.

Moreover, the trade-investment link is gaining institutional recognition internationally. Trade-Related Investment Measures was one of the Uruguay

Round's 15 designated negotiating groups, and the recently launched Organization for Economic Cooperation and Development negotiations aimed at developing a Multilateral Agreement on Investment are expected to be coordinated with the World Trade Organization and probably ultimately brought under its auspices. The North American Free Trade Agreement already includes an investment component. Further, cases such as the recent Section 301 complaint brought by Chiquita Brands against the European Union's new banana import licensing and quota regime -- where a U.S. trade law remedy is being sought to protect Chiquita's investments abroad -- show that from the standpoint of U.S. government functions it is becoming increasingly difficult to make a pure distinction between trade and investment.

Although the trade/investment financing and trade/investment negotiating functions should be clearly separated, close communication between those engaged in the two activities is not a problem. The financing agencies, because they tend to deal with specific new foreign market opportunities at an early stage, may detect potential problems sooner than other components of the trade bureaucracy. These clearly would benefit from receiving that information. And information and analysis produced by ITA country and industry specialists is clearly useful to those making decisions regarding financing assistance. Beyond making ITA's expertise more readily accessible, enabling these four agencies to work in closer proximity would also allow for coordination of their programs and a reduction in the present duplication of work among their own in-house specialists. (Recent efforts by the four to share information and tap into each others' data bases would be even more effective and more conducive to rationalization under this proposed structure.)

As with the domestic programs of the US&FCS (which as noted above are already closely coordinated with Ex-Im and SBA), the programs of these four agencies must work to assure that their benefits are broadly available. They should intensify efforts to cut unnecessary red tape, as Ex-Im has begun doing, in order to reach out to smaller businesses, and to implement as widely as possible appropriate cost-sharing or reimbursement (TDA has made large strides in this area). They should also strive to replace grants with loans where feasible, a practice being pioneered by SBA.

Most of the activities of these agencies are aimed at leveling the playing field for U.S. companies. Their objective is, in part, to put themselves out of business by so raising the costs to foreign governments of keeping their own subsidies programs competitive so they agree, in effect, to multilateral disarmament. But as long as U.S. companies are forced to compete abroad in a subsidized environment, there is a strong rationale for maintaining the programs of these agencies. Whether they are maintained is a policy decision for elected officials, but if they are, they should be consolidated within the new department.

Arguments against placing these four agencies within a larger department center around the importance of isolating decisions on financing from the influence of policy concerns; of enabling these agencies to respond quickly to

industries needs; and of maintaining the prestige allegedly created by independence.

On the first point, since taxpayers' money is involved in these decisions, no agency should receive complete immunity from policy considerations. Such immunity is more warranted for the Import Administration in its investigations of unfair trade complaints, but that agency already functions effectively from within a larger department. While the financing agencies' decisions should not, on the other hand, be policy-driven at the expense of other considerations -- in particular, potential benefit to U.S. companies weighed against the risk to taxpayers' money -- in fact, even under the present structure, these agencies do not operate in a policy vacuum, as suggested for example, by the recent emphasis on assisting trade and investment with eastern Europe.

On the second point, the four financing assistance agencies should be brought into the Department of Economic, Industry, and Trade Affairs as separate bureaus under the Deputy Secretary for Trade. Additional levels of bureaucracy should not be imposed on their day-to-day decision-making. Yet additional oversight on broader aspects of their functioning is appropriate. All four of these agencies put taxpayers' money at risk and, especially in the case of OPIC, the past track-record of minimal losses does not necessarily mean that major losses will not occur in the future. Other issues that remain to be addressed regarding these four agencies include whether their assistance goes disproportionately to a limited number of large companies representing a relative handful of industries (in the case of Ex-Im and OPIC, in particular) and whether some of their functions could be privatized without loss to U.S. competitiveness. These issues should be examined closely in the context of this restructuring and any changes in programs or modes of accountability that appear appropriate can be effected as these agencies are brought into the larger department. Some in Washington argue that these agencies should not be encumbered by additional oversight, while others argue that they recklessly risk the public's money and, in any event, perform functions best left to the private sector. This restructuring plan proposes a middle course: keep their programs intact but make them directly accountable at the cabinet level while implementing whatever changes are deemed appropriate after careful study.

On the third objection -- that independence confers greater prestige on these agencies -- if their activities are sufficiently valued by U.S. business to be worth performing, they do not need any formal boost to their stature. Yet they may benefit from having a cabinet-level official represent their needs in the halls of government.

All of these agencies are important for promoting the U.S.'s combined commercial and foreign policy objective of propelling foreign governments, especially in the larger developing economies, toward more open trade and investment regimes. Their efforts have become even more important for this purpose as investment and trade increasingly replace dwindling foreign aid as sources for development capital for these countries. Nonetheless, to a large

extent the basic goal of these financing assistance agencies is to put themselves out of business -- to compete with and ultimately render too expensive the efforts of other developed sector governments to give their exporters and investors an unfair advantage in chasing foreign business. Whether the U.S. government should engage in this activity is a policy question to be answered by elected officials. If the answer remains positive as it has been through past administrations and congresses, then these functions belong in close proximity to the other major trade promoting programs.

The Export Control Regime

A radical reform of the government's export control regime is essential. The end of the Cold War has rendered the rationale for the old regime obsolete -- and in fact both components of the control system of that era, CoCom, and the US Export Administration Act, have expired.

Export control decisions directly affect both pillars of America's strength -- its economic/commercial health and our military effectiveness. In the post-Cold War world, the United States cannot afford to penalize its own economy with outdated unilateral controls, nor should it accept the risks of an ineffective international control mechanism. The speed of technological advance demands that these decisions be made quickly and updated continually. These imperatives that suggest two criteria for measuring the adequacy of the export control system. First, decisions must be free of any special interest influence or bureaucratic bias. Second, they must be based on up-to-the-minute information and accurate intelligence.

In this changed world, the challenge of balancing the widely different concerns of the departments with a direct interest in export control -- Commerce, State, and Defense -- cannot be met effectively by simply rebalancing authority among them. The problem requires setting up a new structure: the Export Restriction Assessment Commission. It would function as an executive branch agency affiliated with the Office of Trade Affairs (similar to the Internal Revenue Service's relationship to the Treasury Department). This independent Commission would be functionally autonomous, charged with developing objective assessments of the security significance of certain technologies and their availability from non-U.S. sources. The Commission would feature independent commissioners, like the U.S. International Trade Commission, as well as professional staff drawn from the pool of specialists now housed (redundantly) in the department of Commerce, State, Treasury and Defense and would receive private sector input. Unanimous decisions among the commissioners would be enacted, and export restriction would be lifted or imposed accordingly. When the commissioners split, the issue would be sent to the National Security Council for resolution. Administering the export control decisions would be handled by the Deputy Secretary for Trade.

In September, the international community agreed to establish a new multilateral system -- the New Forum -- to replace the defunct CoCom. It is not yet clear how effective this new institution will be, but it is clear that multilaterally imposed controls should be the norm. In today's economy no one country or firm is likely to possess a monopoly on a given technology or product category. The United States should therefore seek a multilateral control regime with a broad membership and a sharp focus on truly critical technologies. To succeed, the new system should maintain regularly updated lists of proscribed end-users, both countries and companies, and of those goods and technologies whose export to those end-users would directly threaten the security interests of group members. The control list review cycle should be shortened to reflect ever shorter product cycles, and there should be adequate notification to allow for review of potentially questionable sales. (At this early date it is not clear whether the New Forum will function in this way or have any enforcement power.) In such an environment, the United States could eliminate unilateral export controls. In any event, whether they are multilateral or unilateral, the key criteria determining whether exports are restricted should be foreign availability, controllability, and substitutability.

The Export Restriction Assessment Commission would make recommendations regarding which products and technologies should be controlled and which company and country destinations should be proscribed. Once the New Forum is fully operational, these recommendations would be sent there, and the commission would be responsible for determining whether a prospective U.S. export falls under a proscribed category. Enforcement, however, would be the responsibility of a separate Office of Export Compliance under the Deputy Secretary for Trade.

The U.S. International Trade Commission

The International Trade Commission would not be brought into the new department. It would retain its statutory status as an independent commission charged with making injury determinations in fair and unfair trade cases. It would also retain its research function.

THE OFFICE OF THE DEPUTY SECRETARY FOR PRODUCTIVITY AND ECONOMIC AND INDUSTRY ANALYSIS

The office of the Deputy Secretary for Productivity and Economic and Industry Analysis would have two major divisions -- one containing the federal government's economic data collection and analysis programs, and one

containing those technology and business development programs that elected officials determine are appropriate federal activities.

Office of Economic and Industry Analysis. The first division would incorporate the DOC's Bureau of Economic Analysis and Census Bureau, the Labor Department's Bureau of Labor Statistics, and the small economic office of USTR. Economic data compilation agencies located within other departments may in the future be brought into this office. Bringing the disparate statistical offices under one roof would foster increased coordination and harmonization of methodology. The Bureau of Economic Affairs and the Census Bureau have recently shown the fruitfulness of such cooperation, but it could not continue if these offices were moved to different departments, as some pending proposals recommend nor could cooperation be broadened to other statistical programs unless they were all brought under one umbrella agency.

Moreover, unlike some of the congressional proposals for restructuring the statistical offices, this plan would give the Office of Economic and Industry Analysis a cabinet-level advocate to go to bat for its interests (in particular, in defense of its budget).

The information compiled on the U.S. economy and its component sectors is a vital national resource. The Office of Economic and Industry Analysis would be charged with two major data collection missions: ensuring the objectivity and independence of the economic data collection operations and assuring that the information gathered is readily accessible to the private sector as well as to other government offices.

The Commerce Department's Bureau of Economic Affairs has another vital role. It contains the office of the Chief Economist of the department. Under the existing system, which this proposed restructuring would preserve, the Chief Economist and his staff report directly to the Undersecretary for Economic Affairs and carry out general analytical work for the rest of the DOC. Although they draw on the information generated by the statistical offices, they do not direct the activities of these offices. In other words, they have no line responsibility, although they review the basic survey design of the statistical offices and help assess where resources should be steered within them. The Office of International Macroeconomic Analysis under the Chief Economist carries out international economic analysis -- the bulk of which is trade related -- for the entire department.

Under this plan, the Chief Economist would report directly to the Deputy Secretary for Productivity and Economic and Industry Analysis. But the Chief Economist and his or her staff would also be accessible to the Secretary and to the Deputy Secretary for Trade. As noted at the outset of this paper, trade policy should be informed by a broad economic perspective. Those charged with crafting trade policy should be organizationally close to those who can provide such a perspective.

Transferring the Bureau of Economic Affairs to the Federal Reserve and the Census Bureau to Treasury, as advocated in one DOC dismantling bill, would disrupt efforts at coordination. Worse, placing Census -- which gathers much of its data through surveys conducted in the private sector -- close to the Treasury Department's Internal Revenue Service would risk eliciting less candid responses, and consequently degraded data.

Further splintering the statistical offices would not lead to any budgetary savings, but cost savings and increased efficiency may come from pursuing current efforts to contract out some aspects of data collection to the private sector.

Office of Productivity. The currently existing National Institute for Standards and Technology would be placed under the Office of Productivity. The purpose of this paper is not to consider the proper role of government in technology policy. Therefore, no recommendations are offered regarding whether the NIST should be preserved or pared back to the old National Institute of Standards or whether its laboratories should be privatized. But whatever its form, this is where it should be housed.

With the rise of standards as a trade issue, the NIST has been assuming greater trade-related responsibilities. It has been assisting developing nation governments in setting technical standards for product certification (helping them meet the increasingly important International Standards Organization ISO standards), which benefits U.S. companies by forestalling the erection of arbitrary standards as barriers to imports. Placing the NIST within the same department as the government's trade offices will facilitate coordination of its role in trade.

The Undersecretary for Productivity and Economic and Industry Analysis would also have responsibility for assessing global developments in emerging and critical technologies, and making these assessments available to U.S. industry.

In addition, the Small Business Administration -- minus its export promotion functions, which would move to the Office of the Deputy Secretary for Trade -- should be brought into the new department under the Office of Productivity. Certain aspects of SBA's business development operations, especially its loan programs, are currently being revised by congressional action, and the agency as a whole is being downsized. Placing it within the Department of Economic, Industry, and Trade Affairs would bring greater oversight and allow coordination of its activities with other offices focused on assisting small business. These would include the small business export financing program, which under this plan would be moved elsewhere within the department.

The Office of Productivity is also the appropriate location for the Patent & Trademark Office. In light of the increasing importance of intellectual property protection issues for international trade, it should be located near the government's trade operations.

Other Organizational Issues

The largest component by far of the Commerce Department is the National Oceanic and Atmospheric Administration. It should be moved to the Department of the Interior.

In the future, consideration should be given to incorporating the Labor Department into the Department of Economic, Industry and Trade Affairs as a third division, under a Deputy Secretary for Labor.

THE STERN GROUP INC.

INTERNATIONAL TRADE ADVISORS

PAULA STERN

The Honorable Paula Stern is president of The Stern Group, an economic analysis and trade advisory firm in Washington, D.C.

A distinguished scholar and a former chairwoman of the U.S. International Trade Commission (ITC), Dr. Stern advises businesses on trade issues that affect their competitiveness in the international economy She serves on the boards of directors of the Westinghouse Electric Corporation, Harcourt General, and Duracell International, Inc. During her years at the ITC, as a commissioner from 1978-1987 and as chairwoman of the 500-person agency from 1984-1986, Dr. Stern analyzed and voted on over 1000 trade cases involving a broad range of industries and problems At the time, she was the second highest ranking woman in the U.S. government.

Dr. Stern is a member of the President's Advisory Committee for Trade Policy and Negotiations and the Advisory Committee of the U.S. and Foreign Commercial Service. She served as Senior Campaign Advisor on trade and international economic matters to President Clinton Currently she is Alkire Chairholder in International Business at Hamline University and Senior Fellow at the Progressive Policy Institute. She is a member of the Trilateral Commission, the Council on Foreign Relations, the Committee for Economic Development, the Carnegie Council on Ethics and International Affairs, and the Inter-American Dialogue

Dr. Stern served as a legislative assistant to U.S. Senator Gaylord Nelson from 1972-1974 and as a senior legislative assistant from 1976-1977. In the years between, she was a guest scholar at the Brookings Institution where she wrote Water's Edge - Domestic Politics and the Making of American Foreign Policy, a well-received book on Congressional-Executive relations in foreign policy making. In subsequent years, she was also a Council on Foreign Relations Fellow and a Senior Associate at the Carnegie Endowment for International Peace.

Her writing on trade and foreign policy, Congress, women's issues, and U.S. relations with Japan, the Soviet Union, the Middle East, Latin America, Asia and Europe have been widely published in scholarly and more popular journals. She is also a frequent public speaker and television commentator on these issues

In addition to sitting on the board of the Overseas Development Council, The Jerome Levy Economics Institute of Bard College, the U.S. Foundation for International Economic Policy, the Atlantic Council of the U.S., Dr. Stern was also a presidentially appointed member of the board of directors of the Inter-American Foundation. In 1993, she was the recipient of the Directors' Choice Award for Leadership presented by The National Women's Economic Alliance Foundation. She served on the advisory panel for the Congressionally mandated National Academy of Sciences' review of national security export controls on technology transfer and the advisory panel of the U.S. Congress' Office of Technology Assessment's study on Technology, Innovation, and U.S. Trade Dr. Stern was both a member and senior advisor of the Trade Policy Subcouncil of the bipartisan federally mandated Competitiveness Policy Council; she prepared the Council's proposals for reforming U.S. international economic policy making which were delivered to the Congress and the President

Born in Chicago, Illinois and raised in Memphis, Tennessee, Dr. Stern received a B.A. from Goucher College in 1967, a M.A. in regional studies from Harvard in 1969, and a Ph D in international affairs from Tufts University's Fletcher School of Law and Diplomacy in 1976. She has received honorary degrees in Law and Commercial Science from Goucher and Babson Colleges respectively and is a recipient of the Alicia Patterson Journalism Award

3314 Ross Place, NW
Washington, D.C. 20008
Tel: (202) 966-7894
Fax: (202) 966-7891
e-mail PALondon@aol.com

September 1996

ISBN 0-16-055742-9